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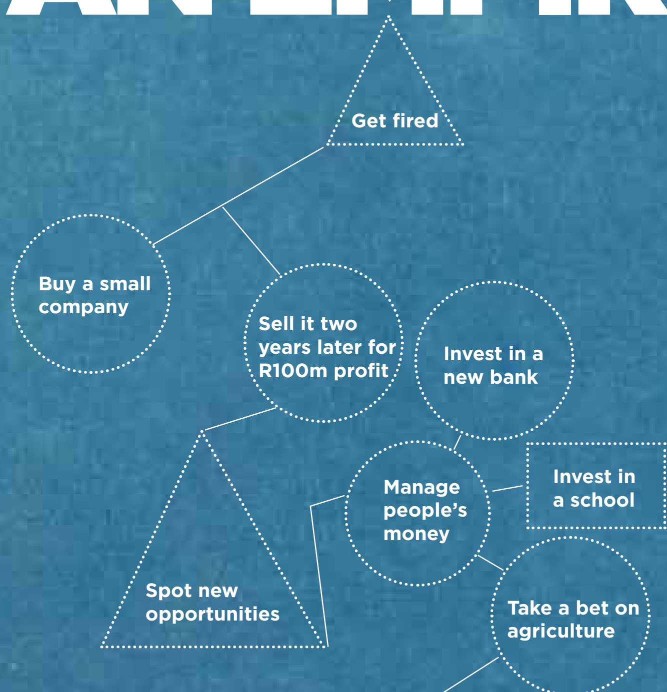
2 July 2015

EXTRA THE MINING YEARBOOK

PSG: HOW TO BUILD AN EMPIRE



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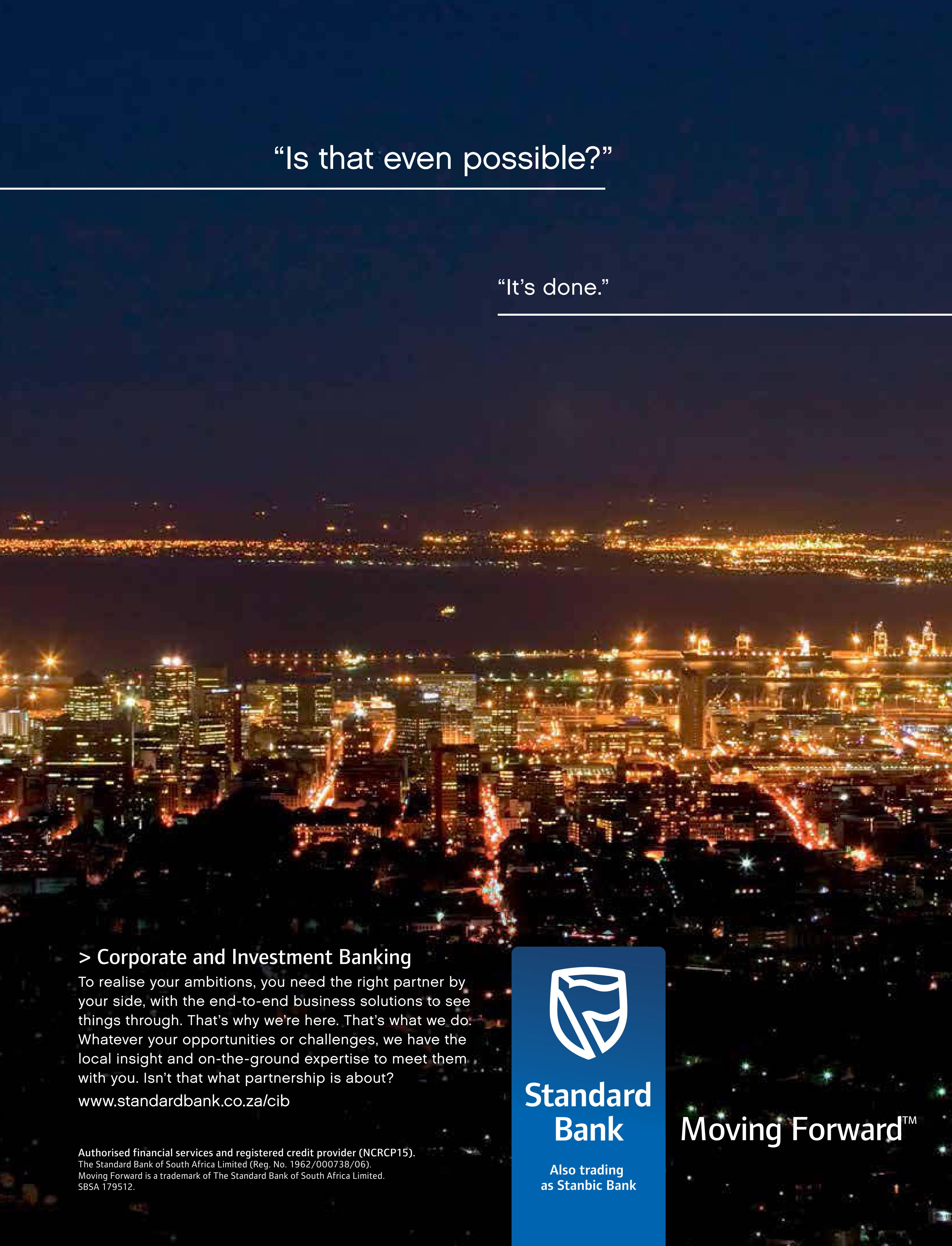
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PSG:
HOW TO BUILD AN EMPIRE

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CLARIFICATION

ROBERT KATZ, CHIEF FINANCIAL OFFICER OF PEREGRINE, WRITES VIA EMAIL:

Dear Simon, I read your write-up on Peregrine in the 25 June edition of *Finweek*. At the outset let me thank you for your faith in us and hopefully we will not disappoint you.

In the past (2009), when we issued shares to our staff in terms of a share-based scheme, we valued the scheme, and the difference between the value of the scheme and the proceeds received were expensed as a share-based payment over the vesting period (which in our case was five years), the final expense thus reflecting on our income statement in the 2015 financial year. This expense went through our income statement as a share-based payment and was included in the determination of HEPS like any other expense.

During the 2014 financial year, certain of our Citadel staff purchased 10m Peregrine shares at market value using their long-term incentive scheme. But because the shares only vest in 2019, IFRS requires that we recognise the fair value of these shares over the vesting period and deems these shares to be participating treasury shares (hence our separate disclosure on the face of the income statement). The expense is recognised over a five-year period as opposed to recognising the full cost in the year it is incurred.

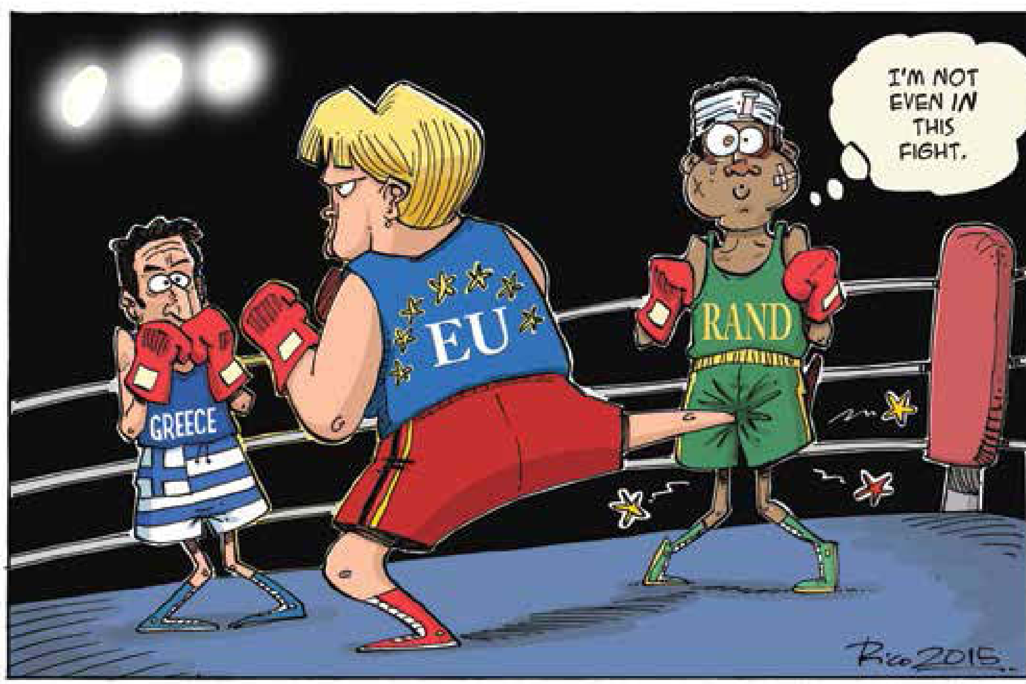
We feel better disclosure would have been to recognise the full cost in the year incurred and hence introduced "normalised" earnings into our disclosures.

Our IFRS HEPS in 2014 were thus too high – R409m as opposed to our normalised HEPS in 2014 of R394m. We took the decision then to publish normalised earnings, as well as IFRS earnings, to give our stakeholders a more realistic view of what our real earnings are. This year the logic was continued and will continue for the duration of the vesting period. The result this year was no real difference in normalised versus IFRS earnings but versus last year, the artificially high IFRS base comparison is the 28% increase in HEPS.

Hope this clears up why we report the way we do. ■

Double take

finweek



In Brief

$1

The amount (R12.21) for which Japanese trading group Itochu is selling its 25% stake in US shale-gas player Samson Resources. Itochu bought the stake for $1.04bn (R12.7bn) in 2011. The decision to exit was made because of the state of operations at Samson and the outlook for gas prices in North America, Bloomberg reported.

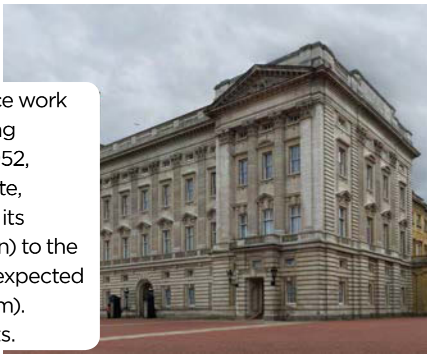
$0

The amount Apple planned to pay musicians during a free three-month trial of its new music streaming business. Apple quickly backtracked after Taylor Swift criticised the proposal in a Tumblr post, saying: "We don't ask you for free iPhones. Please don't ask us to provide you with our music for no compensation." Musicians will now be compensated even though customers will still enjoy a free trial, Apple said.

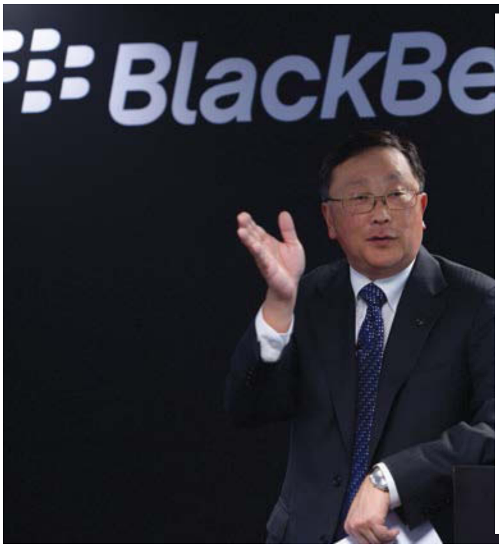
R100M

The additional amount provincial governments will need to find to pay increases for traditional chiefs and headmen, after President Jacob Zuma announced that the salaries of the country's more than 5 000 headmen will be standardised at a flat annual salary of R84 125. Traditional leaders' salaries will be increased by 28.4%.

£150M



The amount (R2.9bn) it will cost to do maintenance work on Buckingham Palace, which needs new plumbing and wiring, and has not been redecorated since 1952, according to the BBC. It comes as the Crown Estate, owned by the UK government with profits paid to its treasury, returned record profits of £285m (R5.5bn) to the taxpayer last year. Public funding of the Queen is expected to rise by £2m (R38m) next year to £42.8m (R821m). The Queen is paid 15% of the Crown Estate's profits.



$28M

The first-quarter loss reported by BlackBerry, half the loss it suffered in the first quarter last year. It reported revenue of $658m in the quarter, down from about $3bn two years ago. The number of handsets sold fell to 1.1m, compared with 2.6m in the first quarter last year. CEO John Chen said the company will continue to focus on growing its software business, while he remains bullish on its ability to make money from handsets, with new models to be launched at the end of the year.

R1.8 TR

The assets under management in the unit trust industry at the end of March, up from R250bn in 2005, according to the latest statistics by the Association for Savings and Investment South Africa (Asisa).

$615M

The estimated value (R7.5bn) of Dollar Shave Club, a mail-order razor business that was launched in the US three years ago, according to *The Wall Street Journal*. Customers subscribe to receive new razor blades delivered by mail on a regular basis. Founder Michael Dubin's launch video, which pokes fun at the pain and expense of shaving, has been viewed 19m times and has raised the group's profile. It's been experiencing rapid growth, with sales of $65m (R793m) in 2014, triple the 2013 figure.

"You cannot afford to make a call for an electricity hike on an already overburdened consumer and a depressed economy, and still hope to stimulate growth. You are essentially taking away much-needed resources to reignite the economy, and giving them to an institution that's not even sure where it wants to go. It just doesn't make sense."

– Chris Hart, chief strategist at Investment Solutions, on Eskom's application for a 22.3% tariff hike.

THE GOOD

Mediclinic will pay R8.6bn for a 29.9% stake in Spire Healthcare, the second-largest private hospital group in the UK, saying it sees Britain as a growth market. This is because it has an ageing population and private healthcare only accounts for about 6% of the market. The deal will be funded through a R10bn rights issue.

THE BAD

Regardless of what the (still secret) report by the Farlam Commission into Marikana has found, Zuma has revealed his views on the matter, defending the police who shot and killed 34 people at the Lonmin mine in August 2012. "Those people in Marikana had killed people and the police were stopping them from killing people," Zuma told a stunned audience at the Tshwane University of Technology.

THE UGLY

Eskom is standing cap in hand in front of regulator Nersa yet again, begging for a 22.3% increase as it battles to keep the lights on. Energy expert Chris Yelland rightly points out: Had Eskom been on time with Medupi, Kusile and Ingula, as promised in previous tariff application rounds, there would have been no need for extra diesel and short-term power purchase contracts – at huge costs – today.

IN MOURNING

People hold hands as they join together on the Arthur Ravenel Jr. Bridge in Charleston to commemorate the lives lost in the shooting at the Emanuel African Methodist Episcopal Church on 21 June in the South Carolina town. Dylann Roof (21) is suspected of killing nine people in a racially motivated attack during a prayer meeting in the church, which is one of the nation's oldest black churches. Pictures emerged of Roof wearing a jacket decorated with the old South African and Rhodesian flags.

Picture: Joe Raedle/Getty Images)

Tracking your **human capital** to save costs

BY SHANDUKANI MULAUDZI

One of the greatest assets a company has is its people. But while human capital is a great investment, it is also very expensive.

Grenville Wilson, executive chair of PRP Solutions (PRP), saw a gap in the market for automated people management.

"It's People Resource Planning – that's what the PRP stands for – in the same way you would have enterprise resource planning like SAP or Oracle – except this looks specifically at your people," says Wilson.

PRP Solutions offers an internet-based solution that allows for companies to manage employees and see gaps in productivity in real time. PRP aims to help companies save costs by identifying problems in the production line and dealing with them immediately rather than at the end of a project.

Kriya Govender, CEO of PRP, says since the company was established in 2012, payroll costs have been cut by at least 10%.

> "THE PROGRAMME IS **GPS-ENABLED,** WHICH ALLOWS THE **MANAGER TO CHECK** THAT INDIVIDUALS ARE **WHERE THEY ARE** SUPPOSED TO BE."

"What we saw as a company is that one of the major problems we have in South Africa, and Africa at large, is a lack of productivity. We saw a need to find a solution that would make it easier for managers to keep track of what employees are doing to reach specific project goals," Govender says.

The solution gets rid of the inefficiency of paper-based systems, says Wilson. "We reduce the chance of duplication and triplication, which happens because people are still issuing timesheets and managing people in the same way they did 50 years ago."

Wilson says these old processes waste time. Managers spend more time on admin than they do on more technical work.

The cloud-based solution integrates with existing programmes within whatever company uses PRP.

"You don't need to go and buy a new system that requires huge customisation. There's no need to buy new hardware or software or anything like that," says Wilson.

Employees are registered on the programme automatically depending on the systems that were used before. Entry to work is recorded through normal work access cards or fingerprint access systems that existed before. If someone works off site, they can easily log in to the system on their phones and sign into their on-location workspace for the day. The programme is GPS-enabled, which allows the manager to check that the individuals are where they are supposed to be.

The solution allows managers to plan projects, identify gaps in the workforce and detect an over-allocation of resources. Because the manager is able to track unexpected incidents such as unplanned absenteeism, they are able to fill the gaps where necessary and minimise the costs of failure.

Wilson and Govender both have confidence in their offering and call it a globally unique solution that will help change the way companies improve productivity. ■

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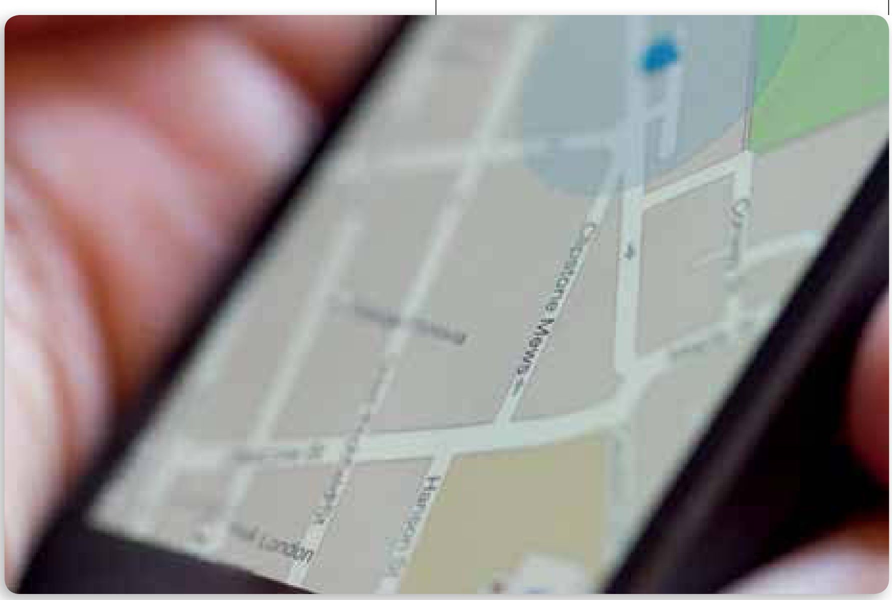


Gallo Images/iStock

Lonmin's secret deal exposed

BY BRENDAN BOYLE

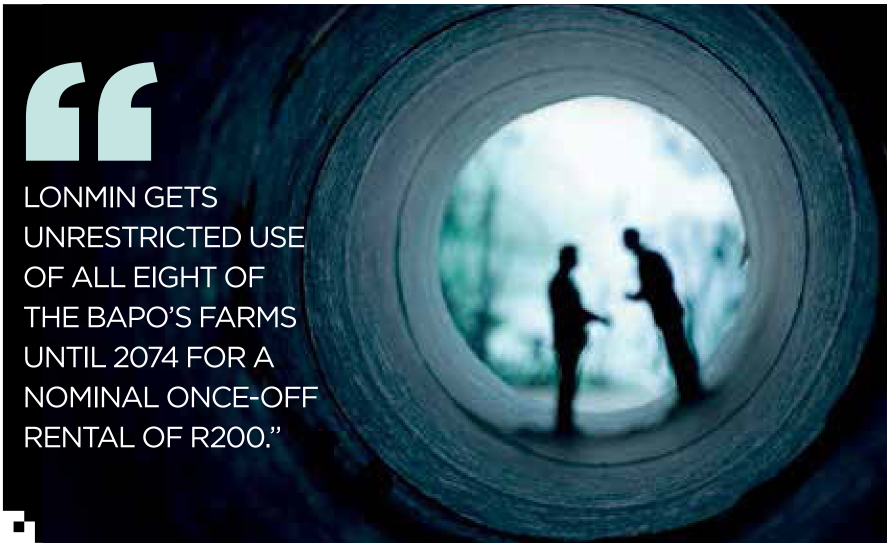
A 40-page lease agreement has exposed a few of the secrets Lonmin has tried so hard to keep concerning its recent deal with the Bapo ba Mogale Traditional Council on the North West platinum belt near Brits. Now a court review could reveal the remaining details of this dangerously opaque transaction.

Opacity is crucial to the elite capture that is robbing ordinary and particularly rural citizens of their meagre shares of the transformation pie. Lonmin's arrangement with the leadership elite of the Bapo is a typical example.

The Bapo Community Liaison Committee, the Serodumo Sa Rona Community-Based Organisation and a number of individual members of the community launched a High Court application earlier this month, asking for disclosure of the agreements made on their behalf. They have also asked the court to order a 60-day renegotiation to ensure fairness, transparency and future accountability for community revenues.

Though a full page of the notarial lease agreement covering Lonmin's Marikana mine is devoted to mutual guarantees of secrecy, the document was recently released to Corruption Watch under the Promotion of Access to Information Act.

The surface lease is just one of nine agreements that record the exchange of the Bapo's royalty right for R100m in cash and R520m in Lonmin shares (roughly a 2.3% stake) that cannot be traded for 10 years. But for the individuals and organisations who have been battling for months to find the resources to challenge the secrecy of the deal, it is enough to prove the importance of their demand for transparency and accountability.



> "LONMIN GETS UNRESTRICTED USE OF ALL EIGHT OF THE BAPO'S FARMS UNTIL 2074 FOR A NOMINAL ONCE-OFF RENTAL OF R200."

Gallo Images/iStock

AMONG THE PROVISIONS THAT HAVE SHOCKED COMMUNITY MEMBERS, WHO WERE NEVER TOLD WHAT TERMS THEIR TRADITIONAL COUNCIL HAD APPROVED ON THEIR BEHALF, ARE:

- The only compensation to the community is for the surrender of their right to a 12% royalty on the pre-tax profit on platinum mined beneath their farms and of their 7.5% share of the Pandora mining venture;
- Lonmin gets unrestricted use of all eight of the Bapo's farms until 2074 for a nominal one-off rental of R200. The company may hand back control of land it doesn't want at a future date;
- The land will be managed by a three-a-side committee appointed by the company and by the traditional council or its companies. Decisions will be by a simple majority;
- The three Bapo members of the committee are the only people entitled to know the lease terms and to receive updates on its implementation;
- The committee will decide unilaterally the purchase price and relocation costs payable to those forced to move to accommodate mining operations;
- Access to Lonmin jobs will be controlled by the traditional council, but the company's obligation to employ local people is only "to the extent reasonably possible" and not subject to quotas; and
- Lonmin gets "the right to the use of available surface and underground water on or under the lease area".

The legacy of colonial and apartheid rule cannot be unravelled on terms known only to corporations and the elites with whom they choose to trade. Though boardrooms may be more comfortable, our new order must be negotiated in public spaces with the people it seeks to benefit and not merely on their behalf. ■

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Brendan Boyle is a senior researcher at the UCT law faculty's Centre for Law and Society.

LETTER FROM NIGERIA

Tricky cabinet appointment a headache for **Buhari**

How long should it take to put together a cabinet? A day or two? A week or two? Having never had to do it myself I don't have an answer, but I will say that Nigeria reckons that taking the thick end of three months from the date of your election is too long. Even in a country used to waiting and waiting for things to happen, President Muhammadu Buhari's cabinet choice is becoming, as Nigerians say, a long thing.

It's not down to a lack of time (the election campaigning alone meant many hours on the bus) and it's not like Buhari, a three-time presidential contender before his victory in March and a one-time military leader of Nigeria, is new to this game. So why the hold-up?

Picking ministers in Nigeria can be like doing a seating plan for the world's most complicated and most important wedding: who doesn't like who, who has a long-standing spat with who, who has just reconciled after said long-standing spat, who starts fights on the dance floor, who calms everyone down at the crucial moments.

The mass defections from the now opposition People's Democratic Party, kicked out in March's election, to the incumbent All Progressives Congress over the last couple of years don't help when short fuses and longer memories are in play.

You might have someone whose qualifications and experience recommend them but who is only a very recent recruit to the party. Or, on the other hand, you might have someone well qualified in loyalty but less well versed in legislation.

Muhammadu Buhari

Gallo/Getty Images

PICKING MINISTERS IN NIGERIA CAN BE LIKE DOING A SEATING PLAN FOR THE WORLD'S MOST COMPLICATED AND MOST IMPORTANT WEDDING.

It's made more complicated by Nigeria's "zoning" convention that apportions high-profile jobs according to region of origin. The intention is to retain representation of Nigeria's ethnic diversity and federal character; the reality is an administrative headache from hell.

The tricky becomes even trickier when you're trying to pick the right person for the petroleum resources ministry: whoever you pick should ideally be from the Niger Delta (former minister Diezani Alison-Madueke was from Port Harcourt) in order to better understand the kid gloves handling the restive region demands. Add to that Buhari's pledge to clean up Nigeria's oil administration and the management of the Nigeria National Petroleum Corporation, and that's one complicated headhunt.

No surprise then that Buhari is rumoured to be holding onto the ministry himself for now until he's pushed through some reforms and stabilised the political framework around the country's biggest export market.

Nigeria's many millions of commentators are, naturally, filling the gap with gossip. Where they might be discussing Buhari's choices appointed, every moment he's not thinking of ministers is a moment wasted.

Knowing how Nigeria works and its unwritten rule that the unexpected wins out over the predictable every time, Buhari will announce the cabinet the moment I send this letter off down to South Africa. With that announcement, the real work – and the real gossip – begins, but until then, the country is discussing his lack of a cabinet. Almost everything he does instead of making appointments is the wrong thing, every trip is a trip he shouldn't have taken without key ministers. ■

editorial@finweek.co.za

THE DAWN OF A NEW ERA

Picture: Dean Hutton/Bloomberg via Getty Images

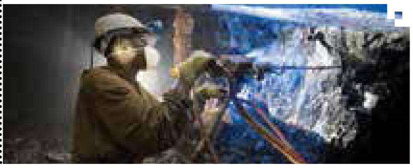
Reserve Bank Governor Lesetja Kganyago poses for a photograph in his home village of Moletjie Ga-Maribana, north of Polokwane, on 19 June. He was at the launch of the new banknotes which bear his name. Kganyago used the first new notes to buy cooking oil, peanut butter and mealie meal from the shop he used to buy bread from for his family as a young boy, Bloomberg reported. Kganyago warned at a function the previous day that the inflation outlook could be worsened by further rand weakness, an expected rise in electricity tariffs and higher-than-expected wage settlements. This would support the case for further hikes in interest rates.

R250m

Mark Shuttleworth lost his battle with the Reserve Bank over the R250m exit levy that he was forced to pay to transfer capital of about R2.5bn to the Isle of Man in 2009. The Constitutional Court overturned a 2014 ruling by the Supreme Court of Appeal, which found that the Reserve Bank should not have imposed the levy and that Shuttleworth should be refunded. The exit levy has since been scrapped. The Constitutional Court said finding in favour of Shuttleworth could expose the state to about R2.9bn in potential claims.

420

The number of managerial and supervisory jobs that may be cut at Amplats' Rustenburg Platinum Mines subsidiary, where operations are being consolidated to cut costs. The proposed restructuring excludes the Rustenburg and Union mines, which Amplats wants to either list or sell. The company said previously that a decision on the option it will pursue will be made in June.



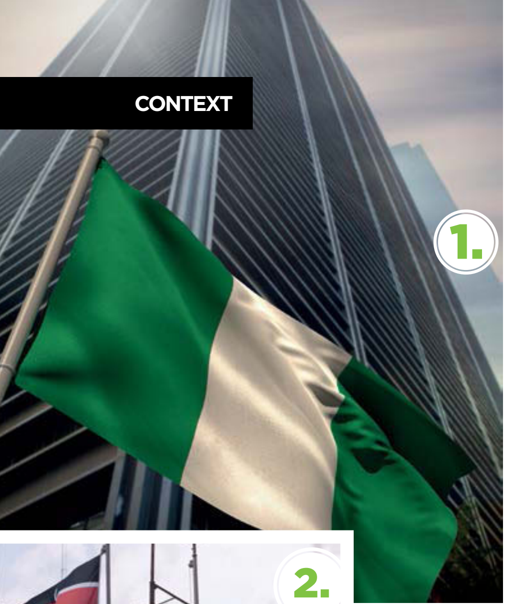
R33.1bn

The net amount of capital that flowed into South Africa from foreign investors in the first quarter of the year, compared with net inflows of R23.3bn in the previous quarter, according to Reserve Bank statistics. The bank said the net inward investment in SA was driven by portfolio and other investment, that are typically short-term in nature and can reverse quickly depending on global sentiment. Foreign direct investment, typically longer-term by nature, recorded a net outflow of R22.2bn in the first quarter, compared with an inflow of R17.2bn in the fourth quarter of 2014.

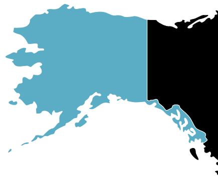
R476m

The amount Toyota has invested in an additional assembly plant at its Prospecton, Durban production site to assemble the Ses'fikile minibus taxi. The investment has allowed it to upgrade the facility to complete knockdown assembly, which means everything from the body shell to the interior will now be assembled in SA. Toyota started assembling the Ses'fikile in 2012, but from semi-knockdown kits, *Business Day* reported.

Gallo Images/Thinkstock



ECONOMIC GROWTH IN AFRICA



SCENES FROM ACROSS AFRICA

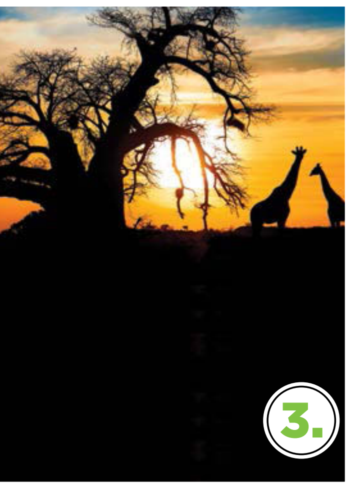
Top to bottom:

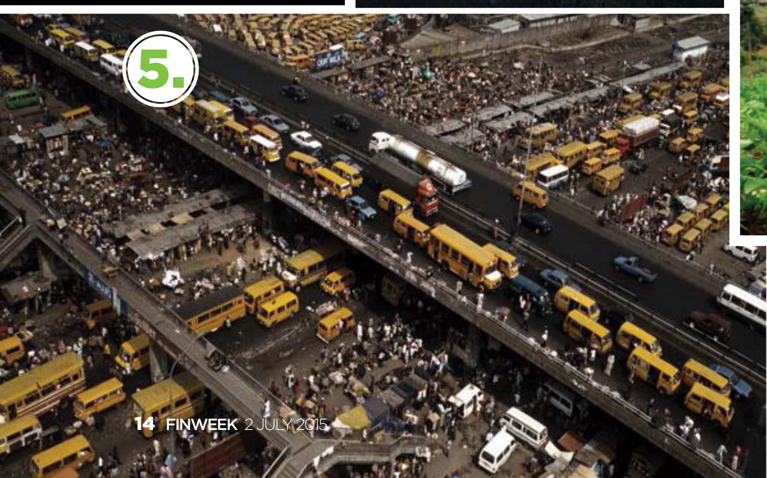
1. **Nigerian flag**
2. **Kenya's Supreme Court in Nairobi**
3. **Sunset scene in Kenya**
4. **Cape Town**
5. **Transport hub in Lagos, Nigeria**
6. **Kenyan famer**
7. **Nairobi's skyline**
8. **Iconic Mandela statue at Sandton City**

▸ Over the past 20 years, South Africa has made much progress to improve the living standards of the average South African. While the nation's **inequality levels remain high and access to basic nutrition and health must still improve,** SA has developed more opportunities to create an inclusive society and vastly expanded political choices for its people, according to a new Deloitte report.

▸ In the short term, the South African economy faces significant challenges. Growth will be less vigorous than in other parts of the region, **falling to only 1.5% in 2015,** because of relatively high unemployment, labour unrest and power shortages, Deloitte said. From a medium (five-year) and longer (20-year) horizon, however, SA's prospects are far more favourable, it said.

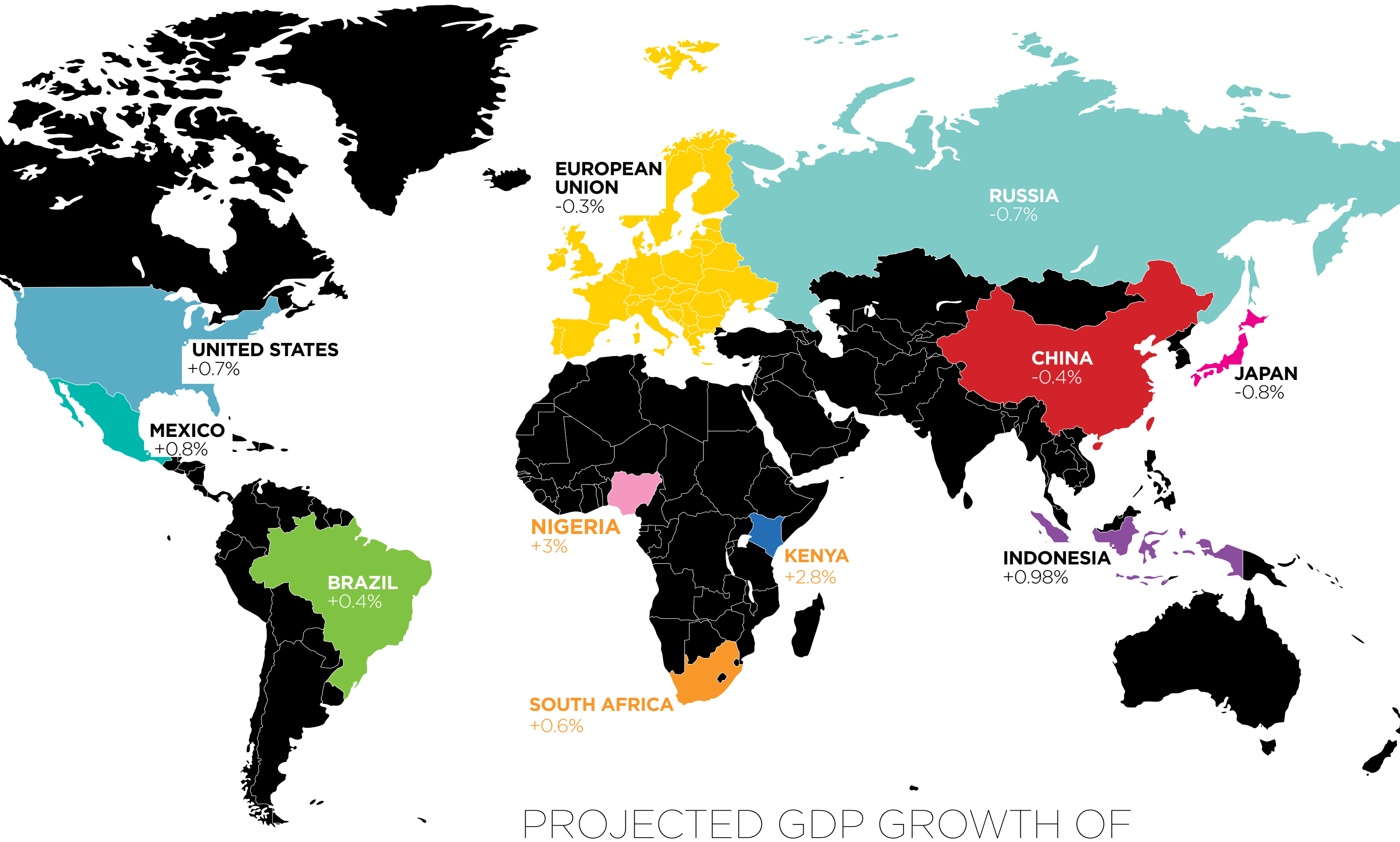
▸ **GDP growth is forecast to rise to 4% by 2020 and average 3.4%** for the next 15 years. The country stands to gain from the strong growth expected in the rest of sub-Saharan Africa, where it remains a key investor, Deloitte said. "If it addresses critical infrastructure, the well-being and opportunity of its citizens and other needs, it can become an important player in the medium- and high-value supply chains that will grow up across the region as the rest of the continent industrialises."





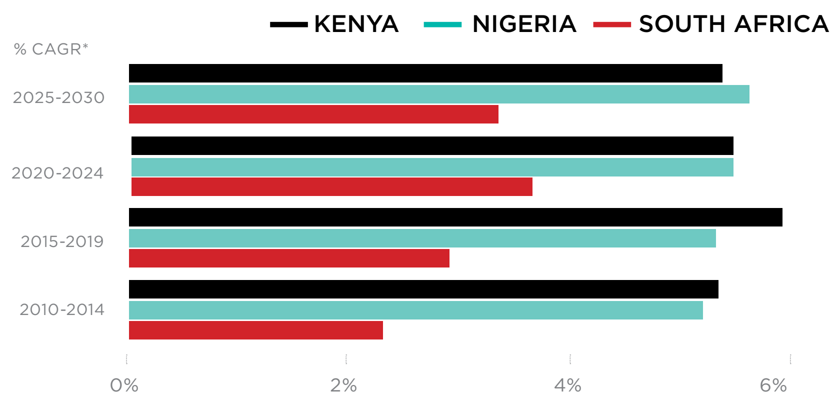
GLOBAL CHANGES IN WORKING-AGE POPULATION

% CAGR*, 2015-34

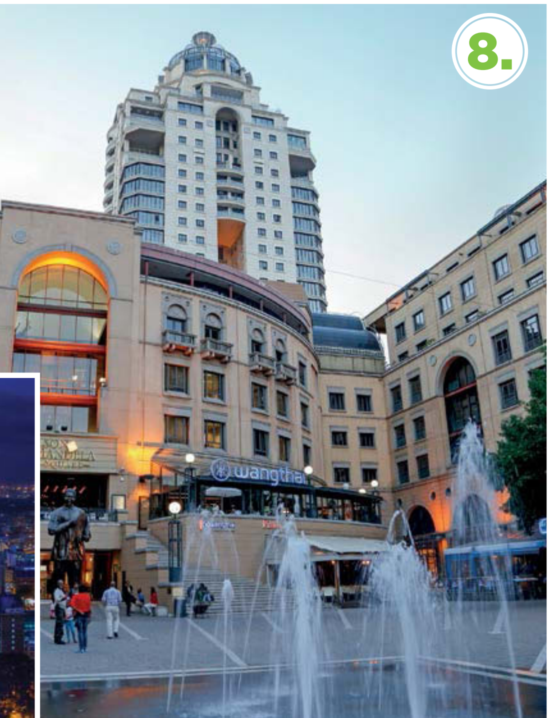


PROJECTED GDP GROWTH OF KEY AFRICAN MARKETS

GDP GROWTH



*Compound annual growth rate
SOURCE: Oxford Economics




Piet Mouton

PSG: THE MOUTON EMPIRE POWERS ON

BY LIESL PEYPER

WHILE MANY SOUTH AFRICAN COMPANIES ARE STRUGGLING TO KEEP THEIR OPERATIONS AFLOAT, INVESTMENT HOLDING COMPANY PSG HAS A CHAMPAGNE PROBLEM: WHERE WILL ITS NEXT CAPITEC OR CURRO COME FROM? *FINWEEK* CAUGHT UP WITH GROUP CEO PIET MOUTON AFTER THE GROUP'S ANNUAL GENERAL MEETING (AGM).

To date PSG's investors have had ample reason to smile. Since its legendary chairman, Jannie Mouton, founded the investment company some 20 years ago, the group has grown exponentially, with a current market capitalisation of approximately R40bn.

And there's no sign that the growth trajectory will slow anytime soon, says Piet Mouton, group CEO and Jannie's second-born son. The 30-something Mouton says the group's four biggest businesses – Capitec, Curro, PSG Konsult and Zeder Investments – have sound growth potential.

"PSG has influence over a large number of sizeable companies with a combined market capitalisation of around R130bn," he says.

Unlike many other companies, PSG's "head office" (the overarching holding company) actually makes money.

In the past financial year PSG's recurring headline earnings and sum-of-the-parts value – the group's preferred way of reporting their annual results – have grown by 39% and 72% respectively.

"Recurring headline earnings," says Mouton, "is

the sustainable income we get from all our companies and is a more realistic and transparent way of evaluating PSG's performance from an earnings perspective."

THE TRICKS OF THE TRADE

As the son of one of the most celebrated business leaders in South Africa, Mouton had lessons in finance from a very young age.

"There were lots of business discussions when I grew up and every now and again we'd ask a question," he says. He recalls a Sunday lunch when he was 13 or 14 during which his father explained at the table how exactly futures and derivatives functioned.

"When I started varsity I knew things the average student didn't know," says Mouton, who studied mathematics.

His father, an avid reader, also encouraged him to read extensively. "He gave me a heap of books and said, 'Read and underline'."

But the biggest lesson he has learnt from his father was to have a solution-based approach to problems. "He'd say to us: 'Don't approach me with the problem; tell me what the solution is'."

This philosophy filters through to the workplace where PSG employees are encouraged to propose new ideas. Mouton admits that his father "is very intense" and somewhat impatient.

"It can be tricky to work with him, but that's why he decentralised PSG – so that he created distance between himself and the CEOs, and allowed them to run their businesses."

INVESTMENT STRATEGY

There's a list of criteria PSG considers before making an investment, says Mouton. One of them is that any future business should have a scalable business model that is easy to understand.

He uses a sports analogy: "The American surfer, Kelly Slater, dominated the sport for 11 years as ASP World Tour Champion, and he earned $3.5m over a period of 20 years. But the winner of the US Masters Golf Championships earned $1.8m for one event. If you go to the trouble of investing in a business, you'd rather go the golf route," says Mouton, "because if a business is successful you want it to be a *big* success."

Secondly, there should be high barriers to entry. "It doesn't help to have a good business idea and then every second person on the street is able to compete against you."

Capitec Bank and PSG Konsult, the group's financial services company, had those "high barriers to entry".

"With Capitec we already have the bank, systems, capital and funding in place, but it would be even more difficult to start another PSG Konsult with all the new regulations, such as the Retail Distribution Review, on the horizon."

But perhaps the most important aspect of PSG's investment strategy is leadership, says Mouton. "This is the one thing that distinguishes a good company from a bad one. And PSG has strong CEOs in its fold – including Gerrie Fourie (Capitec), Phil Roux (Pioneer Foods), Chris van der Merwe (Curro) and Francois Gouws (PSG Konsult), to name but a few. These unique people have passion and drive and they run world-class businesses."

THE NEXT BIG THING?

"If I knew the answer to this question, I would have spent 80% of my time on it," says Mouton when asked where the next Curro and Capitec will come from.


Francois Gouws, CEO PSG Konsult

PSG – THE SUM OF THE PARTS

The PSG Group is made up of seven main business units:

- The retail bank Capitec;
- PSG Konsult, a financial services company;
- Curro, which provides private school education;
- Zeder, an agriculture investment company;
- PSG Private Equity;
- Dipeo, a BEE investment holding company;
- PSG Corporate, including PSG Capital (corporate finance services) and Grayston Elliot (tax advice).

"I'M NOT CONVINCED OUR ECONOMY GROWS BY ONLY **2% TO 3%.** IF YOU LOOK AT THE WELFARE CREATED IN THE PAST 20 YEARS – THE ECONOMY HAS CREATED AN ENTIRE NEW MIDDLE CLASS AND MOST SA COMPANIES HAVE FAR OUTPERFORMED THE GROWTH RATE."

Energy Partners – an energy management company in which PSG has a 57% stake – could possibly be "it", says Mouton, but it's early days.

(The business, as the name suggests, forms partnerships with local businesses to help them find electricity solutions, and if all goes to plan, PSG wants to list the company within the next two years.)

But the energy industry, says Mouton, is complex, and there are global giants to compete against. He would know this all too well, having worked in corporate finance focusing on the energy sector for the French multinational bank Société Générale in London after university.

"If you want to build something really big in the energy sphere, you have to grow between 30% and 40% a year in the initial growth phase of the business, and the big, established companies only target to grow by 10%-15%," he explains.

Not that Mouton is too concerned about finding the "next big thing". "The reality is that Zeder Investments, with the acquisition of Capespan, as well as Curro, Capitec, Pioneer and PSG Konsult should, if all goes according to plan, perform exceptionally well in the medium term. If we find something else it will be the cherry on top."

As for the South African economy, Mouton is all but a doomsayer. "I'm not convinced our economy grows by only 2%-3%. If you look at the welfare created in the past 20 years – the economy has created an entire new middle class and most SA companies have far outperformed the growth rate. I believe SA's growth rate is much higher or, at the very least, there are substantially more opportunities than the growth rate suggests." ■

"IN THE PAST FINANCIAL YEAR, PSG'S RECURRING HEADLINE EARNINGS, AND SUM-OF-THE-PARTS VALUE, HAVE GROWN BY **39% AND 72%** RESPECTIVELY."

THE *FOUR BIG* ONES

PSG's four biggest businesses provide the company with a sound platform for future growth. **Here are some quick facts:**

Gerrie Fourie
CEO of Capitec

CAPITEC

- A retail bank with 668 branches countrywide;
- PSG's stake: 30.7%;
- Market capitalisation: R56.1bn;
- Growth in recurring headline earnings per share: 28%;
  - Soon to be included in the JSE Top 40 Index.

CURRO

- Private school education company;
- PSG's stake: 58.5%;
- Growth in headline earnings per share in 2014: 38.3%;
- It concluded a R740m rights offer in April this year of which 29 599 681 ordinary shares were issued at an issue price of R25 (the rights traded between R9 and R12 per right, which gives a R36 a share value) to raise capital for expansion projects.

Dr Chris van der Merwe - CEO of Curro

ZEDER

- Agricultural investment company;
- PSG's stake: 33.8%;
- Growth in recurring headline earnings per share: 20%;
- PSG acquired an additional 13% in Pioneer Foods with a total direct interest in of 27.3%;
- Capespan was bought recently, which gave the group exposure to markets in China, among others.

PSG KONSULT

- Financial services company focusing on wealth and asset management, as well as insurance;
- PSG's stake: 62.7%;
- Growth in recurring headline earnings per share: 31%;
- Listed on the JSE in 2014;
- Total assets under management: R142bn.

A VETERAN'S **LIFE LESSONS**

PSG chairman and founder, Jannie Mouton, surprised shareholders who attended PSG's AGM when he shared the 20 lessons he had learnt during the company's 20 years in existence. **Here are the highlights:**

► "GETTING FIRED IN AUGUST 1995", as Mouton calls it, was a defining moment in his life. "It's the biggest shock one can get, apart from a personal loss, and it was particularly difficult to face my family and friends." (Mouton was 48 years old when his partners at Senekal, Mouton & Kitshoff (SMK), a stockbroking company he'd co-founded, fired him.)

► READ AND STUDY: Read books by successful people, from Warren Buffett to Sam Walton. "If you read you'll identify more opportunities in life." (Mouton has a library of more than 200 business books.)

► ANALYSE YOURSELF: List your strong and weak points and you'll understand yourself better. "Build on your good characteristics and eliminate your weak points."

► KNOW YOUR ENVIRONMENT: South Africa is a land of opportunities. "Capitalise on areas where you have expertise and stay away from those where you don't have any." (PSG, for example, wouldn't venture into mining, IT and property.)

► FORMULATE YOUR PLAN: Write down your vision so that you can look at it again and measure your progress. (Mouton had a list of eight dreams, one of which was to "move to Stellenbosch", and he realised every one.)

► EXECUTE AND ADAPT YOUR PLAN: The first step toward realising his dream was to buy control of PAG in November 1995 for R3.5m. But in the two decades of PSG's existence, Mouton and his team had to go back to the drawing board on four occasions, for example in the period from 2002 to 2004 when he had to sell PSG Investment Bank.

► VALUE FRIENDS AND THEIR LOYALTY: Mouton has made many friends over the years – many of them who have become business associates. In 2001 PSG was involved in a hostile takeover bid by Absa, but thanks to the loyalty and support of shareholders, it was averted.

► MONITOR YOUR PERFORMANCE: Mouton's industry accolades speak for themselves. In 2015, at a global investment seminar held in the UK, US asset manager Pat Dorsey labelled him "the best capital allocator" in the world. (Dorsey was by chance a member of the audience at PSG's recent AGM and he was asked to come to the stage. He repeated his remarks about Mouton and PSG.)

Jannie Mouton

► COMPARE YOUR PERFORMANCE WITH OTHERS: In terms of compound annual growth rate, taking share price appreciation and dividend payouts into account, PSG has grown by 50.8% a year over a 19-year period. "This means if you had bought PSG shares valued at R100 000 in November 1995 and reinvested all your dividends, your investment would be worth about R280m today. The same investment in the JSE All Share Index would have been R1.7m."

► FOCUS INTERNALLY: PSG has no qualms about selling non-core investments, where the company believes there is no longer growth potential or the investment can no longer add value. KWV, mCubed and Channel Life are examples. Similarly, he focused all his energy on PSG's core investments, appointing strong CEOs and working out optimal growth strategies for the businesses.

► "MR MARKET": The market will always have a major effect on a company's decisions. So PSG strives to be a long-term investor, rather than focusing on short-term share price performance.

► BELIEVE IN YOURSELF: "I have never sold a single PSG share – 100% of my wealth is invested in PSG." Mouton firmly believes one must invest in the company one works for and that management should also be shareholders. ■

AN **ANALYST'S** VIEW

Finweek asked Samantha Pauwels, portfolio manager at Cannon Asset Managers, about PSG's results and future prospects.

Samantha Pauwels

Q: PSG EXPRESSES ITS RESULTS AS "*RECURRING* HEADLINE EARNINGS PER SHARE" AS OPPOSED TO JUST "HEADLINE EARNINGS PER SHARE". IS THIS A MORE TRANSPARENT WAY OF EVALUATING THE COMPANY'S SHARES?

A: PSG's recurring headline earnings are calculated on a see-through basis and are the sum of PSG's effective interest in each investment. PSG equity, therefore, accounts all its investments, irrespective of the investment in the business. This gives a fairer reflection of what the underlying investments are doing in terms of profitability, as opposed to the more commonly used headline earnings metric.

Q: PSG REGARDS CAPITEC, ZEDER, KONSULT AND CURRO AS THEIR FOUR "BIG ONES" IN TERMS OF GROWTH PROSPECTS. DO THE SHARES OF THESE BUSINESSES STILL OFFER VALUE, OR HAVE THEY BECOME TOO EXPENSIVE?

A: Capitec has performed exceptionally well in a much-criticised environment, with its biggest competitor, African Bank, going into business rescue. The business offered great value last year after the bank was downgraded. However, the share price has since more than doubled. The share has had increased momentum following its inclusion in the Top40, and subsequent entry on the buy list for a number of tracker funds. Capitec remains a quality business with great growth prospects and is positioned to be disruptive in the banking sector. It is, however, looking increasingly expensive at current prices, trading at a price-to-earnings (P/E) ratio of 22 times and a price-to-book (P/B) value of 4.8.

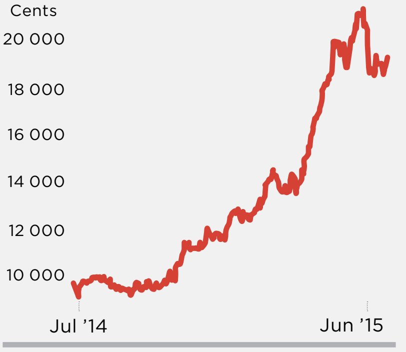
PSG Konsult may have growth potential as its assets under management and earnings increase, but it's far too expensive and does not offer value at these levels.

Curro is a growth story and, therefore, inherits downside risk in the event that the business disappoints on its rapid roll-out of schools.

Zeder Investments makes up 10% of PSG holdings. It has performed exceptionally well, resulting in a spot in the mid-cap index. Although there are exciting developments on their radar with the Agri Voedsel deal, the holding company is trading close to its net asset value, offering very little opportunity.

Overall, PSG is trading on par with its some-of-the-parts valuation, but the majority of the parts are overvalued at current levels and the shares are very vulnerable to a market correction.

PSG Group Limited



52-week range:	R92.01 - R215.35
Price/earnings ratio:	23.5
1-year total return:	+101.29%
Market capitalisation:	R42.7bn
Earnings per share:	R8.19
Dividend yield:	1.04%
Average volume over 30 days:	146 021

SOURCE: Bloomberg.com

Q: PSG HAS A SIGNIFICANT STAKE IN ENERGY PARTNERS AND THERE ARE HOPES THAT IT COULD BE THE NEXT CURRO OR CAPITEC. IS IT POSSIBLE FOR COMPANIES TO MAKE INROADS IN THE HIGHLY COMPETITIVE AND COMPLEX ENERGY SECTOR?

A: We have learnt to not bet against PSG's management in recent years as it continues to uncover investment gems. Outside of the founders and their backers, not many people were excited about the prospects of Capitec making inroads in the South African banking sector. Great opportunities are just that because they are not obvious to everyone else.

So, while Energy Partners operates in a competitive sector, this does not preclude them from succeeding. Energy Partners offers a much-needed solution in South Africa as it helps businesses manage and optimise their energy solutions. This business is still relatively small with ambitious growth prospects by management. Like any other business, if it is able to offer the right product – and in this environment it is on point – at the right price, then some added scale would result in a highly successful business. ■

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Mine wages: Playing a dicey numbers game

BY DAVID MCKAY

Earlier this week, minister of mineral resources Ngoako Ramatlhodi warned mining companies in his budget vote address to the National Council of Provinces, the country's upper house of Parliament, not to play "the numbers game" when it came to retrenchments.

His comments have particular relevance for the gold sector as this is exactly the argument the Chamber of Mines (CoM) is putting to unions in its efforts to arrive at a three-year wage settlement, negotiations towards which began on 22 June.

According to industry sources, the CoM, representing the interests of companies including AngloGold Ashanti, Harmony Gold and Sibanye Gold, which employ some 95 000 workers, is hoping the unions will absorb the fact that even the lowest-paid gold miner receiving R12 000 per month including benefits, will earn R1.8m in salary over 10 years, assuming the current rate of inflation (5% CPI). The value of his pension will double in years five to 10.

Unrealistic wage demands – the National Union of Mineworkers (NUM) and the Association of Mineworkers and Construction Union (Amcu) have tabled 80% to 100% wage increases for entry-level workers – will inevitably mean retrenchments, the CoM will argue.

"If you agree to a package like this, you're not signing a wage deal but a Section 189 notice," a gold industry source said, referring to the notice required in terms of the Labour Relations Act ahead of restructuring and retrenchments.

> "IF YOU AGREE TO A PACKAGE LIKE THIS, YOU'RE NOT SIGNING A WAGE DEAL BUT A SECTION 189 NOTICE."

Quite how the wage talks will develop is anyone's guess. Already, Amcu president Joseph Mathunjwa has rejected the idea of a social compact with employers of which the "value of a job" is an underlying principle, asking instead to be "paid the money".

A report by the World Gold Council, published last month, was equally at pains to emphasise the importance gold mining has to developing market economies such as in SA. It made the surprising observation that despite the prevailing view that SA's gold mining sector is a "sunset industry", it nonetheless remains an important part of the economy.

It found that even though the value from gold mining is relatively modest when compared to the wider economy, it is comparable to other sectors. "For instance, SA's gold industry contributed 1.5% of gross domestic product in 2012, but is around two-thirds the size of the nation's agricultural sector," the council said in its report.

Interestingly, the report also has relevance for the national treasury that plans to implement a carbon tax in SA's 2016 fiscal year. Administered costs – those out of the control of mining companies such as Eskom tariffs – have already had a massive impact on operating margins.

According to industry estimates, the average operating margin for SA gold mining companies is 3%, while the most profitable shafts or mines have seen operating margins shrink to 10% from 30% the last time wages were negotiated in 2013.

Joseph Mathunjwa

By way of context, Section 52 of the Minerals & Petroleum Resources Development Act requests mining firms to alert government in the event margins fall to 6% for a 12-month period, as that's a level considered likely to lead to closure.

Commenting on the prevalence for governments to exact value from miners through royalty rates, for instance, the World Gold Council commented: "By far the most significant means by which value flows from gold mining companies to the economies of host countries is through payments to suppliers and contracts and wages for employees."

Regardless of the economic arguments, the unions, especially the NUM and Amcu, are locked in a separate battle for market share. The gold industry will hope to prove that some 7 000 job losses announced in the platinum sector since the beginning of the year will serve as a stark reminder of what happens when industry is forced to accept unsustainably high wage increases. ■

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IchorCoal on the lookout for bargains

BY DAVID MCKAY

Nkululeko Nyembezi-Heita, the former CEO of ArcelorMittal South Africa, is making short work of her new role at IchorCoal, a relatively unknown Frankfurt-listed company she joined less than 18 months ago.

Tasked with capitalising on coal mining opportunities in SA's unpredictable primary energy sector, she has so far assembled assets producing some 4m tons a year (mtpa) in attributable output, most of it likely to be sold to Eskom.

"We want to be the buyer when times are difficult and now is a good time to go shopping," says Nyembezi-Heita. "But it's not easy as banks don't wish to lend and people don't want to sell at a big discount."

Yet cyclical lows in the price of internationally traded thermal coal are creating opportunities. As a result, a number of small junior miners operating in SA, including Continental Coal, have been forced onto the back foot.

Listed in Sydney and operating near Witbank, Continental Coal placed its SA assets into business rescue earlier this year. This process was largely driven by Absa, which had agreed in September 2011 to lend the company $65m.

A number of coal-mining firms were thought to have kicked the tyres – including Keaton Energy – but it was IchorCoal that made the plunge, buying Continental Coal's Vlakvarkfontein and Penumbra collieries for R128m.

Including the R244m IchorCoal paid last year for a 29.99% stake in another Australian coal miner operating in SA – Universal Coal – Nyembezi-Heita's company is now firmly on the map. Despite this, it still has some road to travel as IchorCoal's strategic goal is to grow output from 15mtpa to 20mtpa.

Nkululeko Nyembezi-Heita

"WE WANT TO BE THE BUYER WHEN TIMES ARE DIFFICULT AND NOW IS A GOOD TIME TO GO SHOPPING."

Significantly, Nyembezi-Heita is interested in buying assets that are producing or near production.

One of Continental Coal's projects – De Wittekrans, described by the firm's previous management as *the* company-maker – holds no interest for Nyembezi-Heita.

"We declined to participate in De Wittekrans so that would be sold separately [out of business rescue].

"Ichor has no shortage of projects; the only shortage is money to finance them. In this stage of cycle, it would be better to stay out of greenfield development projects," she says.

Of the acquisition cost, some R73m required for the purchase of Vlakvarkfontein would be sourced externally as it's easier to raise debt finance against a mine that has positive cash flow. The R55m required for Penumbra would be sourced internally.

Production from both mines will be sold to Eskom rather than through the export markets.

Although IchorCoal has export access through Richards Bay Coal Terminal, Nyembezi-Heita says market conditions are just too difficult to turn a profit. The price of thermal coal from Richards Bay has fallen to between $60/t to $66/t from $110/t several years ago.

"Getting coal out of the country is not difficult," she says. "But when the price of coal drops from $80/t to about $60/t, well, then, you can't make any money. So we won't export the coal."

Production from Penumbra would be blended with domestic coal from an adjacent property, the 1.9mtpa Usutu Colliery, in which IchorCoal has a stake through its 75% holding in Vunene Coal.

Vlakvarkfontein, the other asset IchorCoal bought out of business rescue from Continental Coal South Africa, is profitable, however. IchorCoal already had a stake in the 1.2mtpa operation through its 45% holding in Mbuyelo Coal, which made it a logical bidder for the asset. ■

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Eskom price hikes will 'destroy the economy'

BY TINA WEAVIND

While the Eskom executive and the International Monetary Fund (IMF) endorsed an massive increase in the electricity tariff, the move was met with strong opposition at public hearings into the matter.

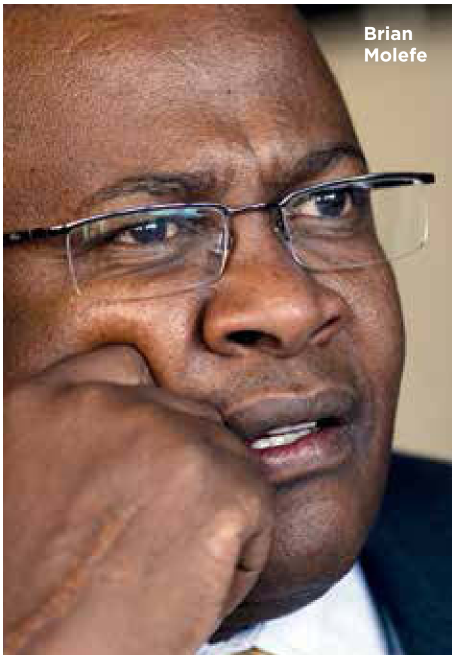
On 23 June, the National Energy Regulator of South Africa (Nersa) interrogated Eskom's demand for a 9.6% increase in addition to the 12.7% already granted. Eskom abandoned its request for an environmental levy of 2.51%, as this hasn't yet been gazetted by the government. Once it is, it will simply be passed through to consumers and wouldn't need approval from Nersa.

Eskom's rationale for the additional increase is that unless the country's Cape-based open-cycle gas turbines add their 2 400MW to the grid, the country will be subjected to Stage 2 and 3 load-shedding on most days. The turbines are powered by diesel and guzzle about R11bn worth of the fuel a year. Funding for the diesel alone accounts for 6.43% of the increase.

Another 3.15% of the tariff increase would go to extending the short-term power procurement programme in which Eskom buys power from independent producers like Sasol, Sappi and Mondi. This costs about R5.3bn per year.

Eskom CEO Brian Molefe's argument was that these costs were infinitely lower than the cost of load-shedding – for every R1bn spent on diesel, the country saves up to R6bn in grid downtime.

Load-shedding was also the reason ratings agencies Moody's and Standard & Poor's had downgraded Eskom's status to junk, pushing up interest rates on loans. The tariff hikes, in preventing extensive load-shedding, would help to restore Eskom's rating status to investment grade.


Brian Molefe

Energy expert Chris Yelland said in his submission to Nersa that Eskom was not entertaining a number of alternative options, such as selling part of its generation fleet or disposing of non-core assets to raise cash.

Molefe countered that Eskom's woes would be over in the next four to five years, when the Medupi, Kusile and Ingula power stations come on line, and that it would return to an upward cash-flush spiral. He said it would be the wrong time to sell while the utility was hurting from its new build programmes. "People who buy will just benefit," he said.

Energy-intensive users also criticised Eskom's request, saying it would destroy jobs and the economy. Jacobus Zaayman, a representative from the Ferro-Alloys Producers Association, said the price increases would "further increase production costs", which the industry could not afford. He said this would "lead to the closure of most smelters in South Africa".

Zaayman estimated that around 200 000 jobs could be lost. Ferrochrome and aluminium operations are some of the most energy-intensive operations in the country.

Peter Turner, senior vice-president of technical services at Sibanye Gold, the country's largest producer of the metal, said the tariff increase would be devastating to the company and the industry. Sibanye, which has 18 mines and employs 45 000 people, had lost R121m in the year to May due to load-shedding. Turner said five of Sibanye's operations could be closed and around 6 700 employees retrenched. The current increase will "cripple South Africa's gold mining industry", he said.

The IMF, a major creditor to SA, was Eskom's lone voice of support. It said in a report released on 23 June that tariffs needed to be increased and government support given to make Eskom financially sustainable. "Solving the electricity crisis is the utmost priority. Severe electricity shortages, the worst since 2008, have become the greatest obstacle to growth," it said.

However, it also noted that "this should be complemented by cost containment (including through improved procurement practices), efficiency enhancements, and governance improvements to minimise the impact on consumers and business costs".

Nersa will make a decision regarding the increase at the end of the month, but the implementation of the possible increase will most likely only take place next year. ■

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Affordable medicines vs growth in pharmaceutical sector

BY JININE BOTHA

Gallo Images/iStock

Africa bears the greatest burden of diseases in the world, yet its population is dependent on drugs, vaccines and medical devices developed abroad in order to stay healthy and to keep working.

Expenditure on medicines accounts for a major portion of health costs in developing countries. This means that access to treatment is heavily dependent on the availability of affordable medicines.

According to the World Health Organisation (WHO), the trade in medicines is increasing rapidly, mostly between wealthy countries, with developing countries accounting for just 17% of imports and 6% of exports. It is also estimated that a third of the developing world's people are unable to receive or purchase essential medicines on a regular basis.

The lack of affordability of medicines has often been blamed on the pharmaceutical industry, which is understandable if one views the profits made in this sector. According to the WHO, the global pharmaceutical industry is worth about $300bn (R3.6tr) a year and is estimated to grow to nearly $1.3tr by 2018. The value of Africa's pharmaceutical industry is expected to grow from $20.8bn in 2013 to up to $65bn by 2020, according to McKinsey.

Abieyuwa Ohonba, a senior lecturer in health economics at the University of Johannesburg (UJ), adds that companies based in the United States currently dominate the global pharmaceutical market.

"The 10 largest pharmaceutical companies are based in the US and the remaining four in Europe. South Africa represents only about 0.35% of the global market," she adds. This means that most drugs need to be imported, which in turn affects the price and availability of certain drugs.

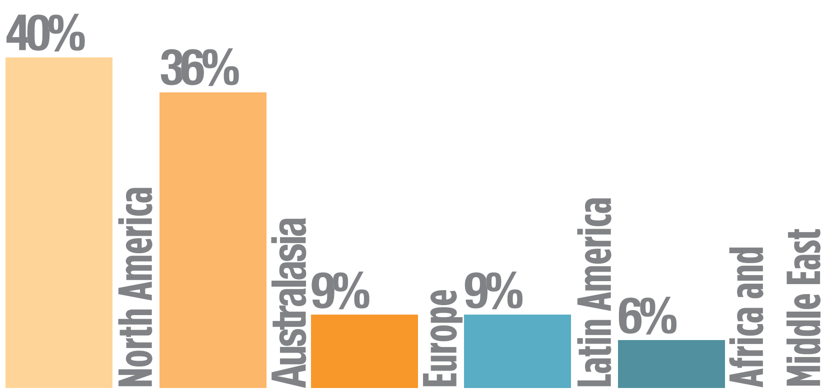
The Fix the Patent Laws campaign (see sidebar), supported by 12 health organisations such as People Living With Cancer (PLWC) and DiabetesSA, believes the approval of the National Policy on Intellectual Property is a critical first step toward reform of patent laws and practices "that deprive people living in South Africa of more affordable treatments for all conditions".

According to Kate Ribet, spokesperson at Doctors without Borders (MSF), the draft policy contained important commitments to reform the laws in order to restore the balance between public and private interest in favour of people's health. Following the adoption of a final policy by Cabinet, bills to amend intellectual property legislation in SA will be brought before Parliament.

Ribet says that SA currently grants patents on almost every patent application it receives, allowing companies to maintain lengthy monopoly periods on medicines. "This keeps prices of many medicines higher in South Africa than in many other countries."

THE LACK OF AFFORDABILITY OF MEDICINES HAS OFTEN BEEN BLAMED ON THE **PHARMACEUTICAL INDUSTRY,** WHICH IS UNDERSTANDABLE IF ONE VIEWS **THE PROFITS** MADE IN THIS SECTOR.

REGIONAL CONTRIBUTION TO GLOBAL PHARMACEUTICAL MARKET GROWTH IN THE PERIOD 2013-2018



SOURCE: *Statista*

Gallo Images/iStock

THE PATENT LAW CONUNDRUM

The Fix the Patent Laws campaign was initiated in 2011 by the Treatment Action Campaign (TAC) and MSF. The campaign calls on the department of trade and industry (dti) to remedy shortcomings in South Africa's current intellectual property legislation that allows for excessive patenting of medicines – at the expense of affordable access. The dti has already embarked on a process of legislative reform, releasing a Draft National Policy on Intellectual Property for public comment in 2013.

It is estimated that 80% of patents granted in SA do not meet the country's patentability criteria. This is largely due to the fact that patents are granted without substantive examination of applications to ensure that patentability criteria are met.

As a member of the World Trade Organisation, SA is required to uphold minimum standards of intellectual property protection as defined by the international Agreement on Trade Related Aspects of Intellectual Property Rights (TRIPS). This includes granting 20-year patents on medicines.

However, SA also has significant flexibility under TRIPS to amend national legislation in order to improve access to medicines. Reforms could include the government taking measures to limit abusive patents being granted on medicines. At the same time, government could establish easier procedures for overcoming legitimate patent barriers when medicines are unaffordable, unavailable, or not adapted for patient needs.

Fix the Patent Laws is calling on the dti to release a final version of the National Intellectual Property Policy, committing to adoption of a number of key reforms within a reasonable timeframe.

Bernice Lass of cancer group CanSurvive says some cancer patients would rather go to other countries such as India for treatment. "The combined cost of the flight, medical services and drugs is cheaper than buying the drugs alone in South Africa."

Magdalene Seguin of the Cancer Association of South Africa (Cansa) shares Lass's view, saying they are regularly contacted by patients who don't have access to medication due to the high cost. "Cansa supports that patent legislation in South Africa be amended urgently to ensure access to new affordable and life-saving cancer medications."

Ohonba adds that although the patent act is necessary to ensure the rights of intellectual property, it restricts access to affordable medicine.

"This is mainly because large pharmaceutical companies, which enjoy economies of scale (cost advantages

WHY DOES MEDICINE COST SO MUCH?

Abieyuwa Ohonba says there are three top reasons why medicines become expensive:

1. Research and Development: The high costs of research in the development of the drugs, which takes an average of seven to 10 years. Costs are also involved in testing the drug's effectiveness, safety and marketing.

2. Profit: "The firm's main motive is usually profit maximisation and they would want a good return for their investors."

3. The oligopolistic nature (few firms) of the industry means that there is stiff competition to survive.

She believes that medicines can be made more affordable by increasing generic production. "Encouraging this type of competition on local level will go a long way in making medicines more affordable."

due to size), also have large budgets for research and development. They are able to afford the high costs of research, manufacturing and registration of patents on their medicines. This means that these companies have a monopoly on the medicines, with almost no competition, and therefore higher prices."

According to the WHO the probability of dying due to non-communicable diseases (NCD) such as cardiovascular diseases, cancers, diabetes and chronic respiratory diseases in South Africa is about 27%. "This figure is based on people between the ages of 30 to 70, which makes up most of our workforce."

If a third of the workforce cannot afford or get access to the drugs they need, more sick days are taken, which in turn impacts negatively on the productivity of the economy. According to Statistics SA, sick days cost the nation about R19bn annually.

However, making snap judgments about the huge profits pharmaceutical companies make versus the affordability of medicines in developing countries could cause unforeseen results, warns economist Keith Lockwood.

"This is not a simple issue," Lockwood says. He says that one hears and reads about the huge profits pharmaceutical companies make, forgetting that each company usually has one or two drugs that make it a fortune.

"These drugs can easily be replaced by something new and better, affecting the company's bottom line to develop other drugs. Pharmaceutical companies have huge research and development costs. What happens if legislation is passed that denies these companies their exclusive rights to recoup these costs – as in the form of a patent?"

He adds that if the private sector is not involved, governments would need to step in and fund the billions necessary to develop drugs. "If one looks at the history of public-funded medical innovation, it is clear that results were less than desired." He admits that patents do impact the price of drugs, but believes there is an important societal question that must be answered first.

"At what point does society want public money to be spent on making drugs affordable? In certain cases it makes sense for government to offer some kind of subsidy – as it already does in the case of flu injections – but if one allows the process to become open-ended, arguments will later be made for Botox to be subsidised."

Lockwood says the industry needs further analysis to ensure medicine is affordable, but "if one blunders in with good intentions without proper scrutiny, it might just have the opposite effect". ■

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STRATEGIES TO INCREASE AFFORDABILITY

According to the WHO, affordable prices are most affected by globalisation. Strategies to increase affordability of medicines include:

- Reducing taxes, tariffs and margins, and developing pricing policies.
- Promoting competition for multi-source products.
- Generic medicines including generic substitution.
- Good procurement practices.
- Equity pricing and competition for single-source products. According to the WHO, equity-pricing policies ensure that, from the point of view of the community and the individual, the price of a drug is fair, equitable, and affordable. Those in favour of equity pricing argue that the poor should pay less for essential medicines.
- Differential pricing (sometimes also called tiered pricing). The sale of the same goods to different buyers at different prices, with the aim of improving the affordability of drugs while generating revenue for the pharmaceutical industry. WHO adds that differential pricing has reduced the cost of many anti-retroviral HIV/Aids therapies by up to 90% in low-income countries, although they continue to be sold at market price in developed countries. There are concerns that differential pricing will result in product diversion, with cheaper drugs leaking back into wealthy countries.
- Price information and therapeutic substitution.
- Promotion of competition, use of safeguards compatible with the agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS), such as parallel importation and compulsory licensing.

The comeback kid: Why the travel agent is back in business

BY JININE BOTHA

The CEO of Pentravel, Sean Hough, in front on the blackboard showing what the company's new Sunshine stores seek to deliver.

Travel agents are back in business because the relationships they build in the industry give agents a depth of knowledge. This, in turn, gives their customers the upper hand.

So says Pentravel CEO, Sean Hough.

In 2009 Pentravel and its newly appointed CEO stood at a crossroads – close the doors or redefine the purpose of the business.

Five years ago this leisure travel specialist was struggling to survive – with a reported loss of R2.7m for the 2008/09 financial year.

This loss was due to a variety of factors – the global economic recession, major turbulence in the travel agency sector because of tough trading conditions, and 'digital disruption', with consumers migrating to cheaper online alternatives.

In 2010 South Africa had 5.3m internet users. A year later that number rose to 8.5m. By 2012 one out of three South Africans was an internet user, and by 2013 more people in SA had access to a mobile phone than to drinking water. And online travel sites exploded.

"I have found that in the face of adversity or great change, as with the rise of the internet, people panic and stop doing what they have always been

HOUGH'S VIEW ON THE NEW VISA REGULATIONS

MANY HAVE VOICED THEIR CONCERNS ABOUT HOW THE NEW VISA REGULATIONS WILL IMPACT SOUTH AFRICA'S TOURISM INDUSTRY. THE TOURISM INDUSTRY CONTRIBUTES 9% TOWARDS GDP AND EMPLOYS 1.5M SOUTH AFRICANS.

According to Hough, the new requirement where children travelling abroad would need unabridged birth certificates is truly a frustration to Pentravel's customers.

"We needed to invest time and money to ensure that our customers were prepared. In some instances people had to wait seven months for a certificate," he says.

Seeing as the regulations came into effect on 1 June, Hough says it is too early to truly say what the impact will be. "We understand the reasoning behind it, but this is just another extra tax South African travellers would need to budget for."

He adds that because the regulations were resulting in fewer international travellers coming to SA, local travel would become more affordable. "I predict that hotels and game lodges will contact us with wonderful specials for local travellers. So this winter will truly be the time to see South Africa."

The new revamped Sunshine stores

good at," Hough told *Finweek* on the eve of the company's first Sunshine Store launch at Woodlands Mall in Pretoria earlier this month. Its Watercrest store in Durban is also being revamped, with similar plans for its 28 other stores in the coming years.

"Businesses either try to change their model or they invest more in technology. And like so many other travel agents, Pentravel lost its way. Travel used to be a fun industry to work in but it was struggling to survive all the changes."

In a bold move, he decided against cost-cutting or retrenchments. He persuaded his board instead to keep investing in quality employee incentives and to redefine the business, its purpose and its offering.

They adopted a "people-first" strategy of building a unique culture in the business, and went on a national road show to educate their staff and get them excited about Pentravel's new strategic focus – to deliver sunshine.

"Today we do not believe our purpose is to sell holidays. Our real purpose is to make people happy and to deliver sunshine in their lives," says Hough.

He says this has been part of Pentravel's five-year evolution.

"Five years ago we couldn't say we were delivering sunshine because we had a lot of work to do. You can't deliver sunshine until that is actually what your culture fosters."

So Hough brought back some of the rewards he enjoyed as a travel agent when he started his career at Rennies Travel at the age of 22.

IN LESS THAN FIVE YEARS, THE COMPANY GREW OVER **700%** AND REPORTED PROFITS OF MORE THAN R20M AT THE END OF 2014.

"Rennies always had wonderful employee incentives like free holidays for best sellers [employees who brought in the most revenue]. But somewhere along the way we all lost our way.

"So I wanted to bring back the good old days when employees were rewarded for the work they did," he says.

Today Pentravel hires only consultants with a determination to finish a degree or diploma, a passion for travel and those who have actually experienced an international trip.

"We then invest in their ongoing education by sending them to exciting places like Machu Picchu, the Great Wall of China and the Galápagos Islands.

"This is wonderful for their personal adventures, while our customers enjoy the depth of experience these once-in-a-lifetime trips afford," he says.

Today employees can travel as much as four times a year if they reach their targets. We are also close-knit teams. We enjoy one another's company and travel together."

To support the 'fun culture', the company's shops also feature dress-up Fridays and mascots, which sometimes get stolen by employees from other Pentravel stores.

"These are not new concepts, but it truly surprises me how many businesses do not focus on the fun aspects.

"I mean our business, with R1bn turnover, is in the hands of 22- to 25-year-olds. The members of Generation Y who still want to have fun. Now the culture is not just the CEO or manager's responsibility to maintain, but the responsibility of each member of the team," he says.

Pentravel's strategy of putting fun back in the travel business paid off: the sun once again started shining on the company. In less than five years, the business grew over 700% and reported profits of more than R20m at the end of 2014.

Besides its dramatic financial turnaround, Pentravel finds that 61% of sales are from repeat and referral business. The consumer complaints site Hello Peter supports this, giving the company a 91% customer satisfaction rating.

"We're proud of these figures because, besides dispelling the common myth that a physical travel expert is no longer relevant, they're testament to our focus on building strong, sustainable relationships with our customers that keep them coming back," says Hough.

Employees say Hough's charismatic and people-centred approach helped them to understand Pentravel's new vision and to grow with the business.

For Hough the vision was not to sell holidays, but to sell happiness.

"All our employees needed to understand that we had to go above and beyond to create extraordinary customer experiences that leave a long-lasting impression. In so doing, we connect with all our customers and make them feel special by sharing in the excitement of their holiday." ■

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SIX THINGS ABOUT SEAN HOUGH

■ **Management style:** Hough describes his style as "rah-rah with purpose". He is result-orientated but for the company and its employees to be driven by the same results, Hough exudes an aura of fun and respect in his dealings with all employees. "I am very hands-on," he says, while explaining that all prospective employees are interviewed by him in the final stages before they get a job at Pentravel.

"I don't do this because I do not trust my managers. I just want people to know that each position is important in the company, and that is why the CEO interviews you," he says.

■ **Gadgets:** Hough would rather travel with his iPhone than with his toothbrush. "I have got every Apple thing ever invented, but my iPhone is simply the best tool when travelling." He also loves his apps and has one down-loaded for everything from necessities like flight tickets to fun when editing videos of travels.

■ **Work/life balance:** He admits it is a challenge to balance his work and home life as the CEO of a travel agency. "When you work and love travel, it truly becomes your lifestyle. So suppliers, tour operators and airline staff become your mates." However, when he is home in Cape Town, he joins his partner, Chad, and two dogs on walks along the mountain or jogging next to the promenade.

■ **Favourite pastime:** He loves active holidays and tries to ski every year. "My brother runs a ski resort in Japan, so we try to visit him every two years." He has skied on each continent and says active holidays are the ones when he gets to relax the most.

■ **Favourite book:** He enjoys a great adventure or travel books in which you also discover a new culture, like [Yann Martel's] *Life of Pi* or [Arthur Golden's] *Memoirs of a Geisha.* "I am finally on page 800 of *Shantaram* [by Gregory David Roberts]. In the time it took me to read *Shantaram*, I've lost 7kg, renovated my house and travelled quite a bit, but my goal is to finish it at the end of this month."

■ **Advice for rookies in the travel industry:** Hough suggests newcomers to the industry travel internationally and get at least a year's worth of training at a travel agency. "You must start in retail travel to broaden your knowledge of travel. It is here that you learn everything from airlines, destinations, customers and dealing with money."

He adds that almost 10% of the world's population works in tourism, making it the world's largest employer. "So seriously consider working in the travel industry, but know you will work just as hard as you have fun."

Accounting firms ride deal wave into Africa

BY CIARAN RYAN

South Africa's Big Four accounting and audit firms – PwC, Deloitte, EY and KPMG – all report respectable growth over the past two years, much of it tied to a recent surge in deal activity at home and elsewhere in Africa.

Deal activity took a dip following the post-2008 financial collapse, and with that came a slump in demand for traditional accounting advisory services – like valuations and mergers and acquisitions. Confidence has returned since 2013, leading to a spike in deal volumes that has kept professional services firms busier now than at any time since 2008.

Most South African companies of any stature are building networks across the continent, and that requires a healthy understanding of local taxes, laws and regulations. They are turning to accounting firms with Africa-wide networks to help them navigate these waters.

Just as law firms are taking CAs and other professionals on board to broaden their advisory repertoire, so are accounting firms bringing legal, risk and other disciplines in-house.

What separates the larger accounting and advisory businesses from the rest is their expanding footprint across the continent and the globe. They also have an ecumenical approach to advisory services that now embraces forensics, risk, audit, data and analytics, management consulting and turnaround strategies.

This is a far cry from the traditional audit and accounting services for which these firms were renowned in decades past. And while audit is generally perceived as backward-looking, the tighter regulatory and corporate-governance standards require a more progressive approach, and that is pushing advisory firms into predictive sciences. New auditor reporting standards, which come into effect in late 2016, will further raise the bar for accounting firms.

Despite slow economic growth in SA, the rest of Africa is coasting along at growth rates of about 5% a year. SA remains the African gateway for most multinational companies, hence their need to engage with professional services firms with a pan-African presence.

PwC, which topped the list of reporting accountants for mergers and acquisitions in SA in 2014, reported a 10% growth in revenue for the year to June 2014, though head count remained flat after a 3% growth in staff numbers in 2013.

Brendan Deegan, PwC Africa Assurance Leader, says the chief growth drivers in the firm are audit-related services, tax, advising on deals and forensics. Because of the high level of expected growth over the next few years, PwC is expecting to move into new offices by 2017.

Now several accounting firms have to find new office space to accommodate expected growth. EY's professional head count in Africa has grown by about 20% in the past two years, and it recently relocated to a spanking new building opposite the Gautrain in Sandton. Here it occupies 23 000m² of space.

KPMG sold its buildings in Johannesburg, Pretoria and Polokwane to take advantage of recently enacted real-estate investment trust legislation. It continues, however, to lease the buildings from the owners. It is moving offices in Cape Town and Pretoria as the firm has expanded beyond the capacity of the current space. »

NEW CAs ENTERING THE MARKET SINCE 2006
(There are 39 052 Saica members)

2006	1 620
2007	1 602
2008	1 662
2009	1 875
2010	2 230
2011	1 861
2012	1 800
2013	1 860
2014	2 146

SOURCE: SA Institute of Chartered Accountants

Brendan Deegan

KPMG reported a 7.6% increase in fees generated in SA in 2014, a shade behind the 10% generated out of Africa as a whole. Globally the firm grew revenues to $24.8bn in 2014, 6.3% up on the previous year.

Carel Smit, head of Africa energy & natural resources at KPMG, says the growth is coming primarily from its audit business, and fast-growing tax and advisory businesses. "Our approach – providing tailor-made solutions that fulfil the needs of our clients – has ensured that we continue to see growth in all our services. We also are focusing on a number of strategic growth initiatives including data and analytics, cyber security and business transformation, which we expect will deliver exponential growth in the next three to five years," says Smit.

EY (formerly Ernst & Young) has reorganised itself in sub-Saharan Africa as one integrated firm operating in 28 countries out of 38 offices, which means it can provide a seamless service to clients – instead of looking at each economy in isolation.

"This diversification of services and geographical footprint is what is fuelling growth in Africa," says Ajen Sita, CEO for EY Africa.

"The African business landscape has almost every aspect of

MERGERS AND ACQUISITIONS 2014

NO.	COMPANY	TRANSACTION VALUES Rm	MARKET SHARE*
1.	PwC	78 364	38.99%
2.	Deloitte	67 221	33.44%
3.	EY	28 935	14.4%
4.	KPMG	20 602	10.25%

*Market share based on total deal value

NO.	COMPANY	NO. OF DEALS	MARKET SHARE**	DEAL VALUES Rm
1.	PwC	16	24.62%	78 364
2.	Grant Thornton	11	16.92%	3 883
3.	KPMG	10	15.38%	20 602
4.	EY	8	12.31%	28 935

**Market share based on number of deals

REGULATORY CHALLENGES ARE GOLD TO ACCOUNTING FIRMS

There is no doubt that an increasingly fraught regulatory environment works to the advantage of accounting and advisory firms. These companies must interpret and advise clients on an ever-changing business landscape beset on the one side with cross-border financing and tax challenges, and political and security issues on the other.

"Many industries are faced with more and more regulatory pressures," says Bam.

"While in some cases this can add a lot of pressure to comply, it is also possible to make sure that regulations add value to your business. Deloitte has been involved in a number of assignments where our support for regulatory compliance has been configured as a business value-adding exercise. Again, our clients seem to have responded very well to this approach."

This is where a multi-disciplinary approach is vital, something all the Big Four accounting firms have embraced.

PwC's Deegan says the business of providing accounting and advisory services has changed over the years, driven in large part by technology and how the company performs audits and bookkeeping services. Other areas of growth are risk assurance, changing audit standards, and helping clients stay on top of evolving regulations.

Smit says KPMG is seeing stronger demand for management consultancy, risk consulting, and transaction and restructuring services – which combined contributed to the 10% growth recorded in its global advisory revenues last year.

Several surveys highlight regulatory risk as one of the top 10 business risks for virtually all large businesses in SA. This is because of ongoing changes in policy and legislation across the continent.

One industry particularly affected by regulatory change in the post-2008 world is financial services. This is creating more complex reporting requirements, as well as business uncertainty.

"As a result, banks, insurers and asset managers have to continuously grapple with the complexity of keeping track of and adjusting to the sheer volume of measures, and the multiple interactions between them," says Smit.

KPMG operates a regulatory centre of excellence to provide research and advance intelligence of what is coming down the pipe in terms of policy, legislative and regulatory change and the probable business ramifications. The centre of excellence also keeps its audit, tax, and advisory specialists up to speed on regulatory developments so they can tailor solutions to clients.

"The result of all of this is that we have seen exponential growth in our regulatory related professional services offering," adds Smit.

"
SA REMAINS THE AFRICAN GATEWAY FOR MOST MULTINATIONAL COMPANIES, HENCE THEIR NEED TO ENGAGE WITH PROFESSIONAL SERVICES FIRMS WITH A PAN-AFRICAN PRESENCE.
"

» complexity imaginable – legislation and regulation to name just two. Most of our clients want to establish a pan-African presence, and being able to navigate the African business landscape through a single point of contact is extremely appealing. Professional services networks that remain a loose conglomerate of individual firms, operating under a single brand but with single-country mindset, will not successfully leverage the opportunity for growth that a pan-African approach will deliver," says Sita.

Deloitte reported a 12% growth in revenue for the last financial year, with much of the growth coming from its advisory businesses, including consulting, risk advisory and tax services.

Says Lwazi Bam, Deloitte CEO: "What we have seen as a positive trend from the market is a huge demand for solutions to market issues. We have been very successful in solutions that are not based on any single service but are a combination of various competences."

Says Smit: "We are investing in the rapidly growing area of data and analytics – helping clients create value from massive amounts of data available today. Globally, we have launched KPMG Capital, a new and innovative investment fund that supports technology partnerships, strategic alliances and recruitment of top talent to help create new data and analytics solutions." ■

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WHERE GROWTH IS HAPPENING

Nigeria, Mozambique and Kenya are quickly establishing themselves as attractive for foreign direct investment, and there has been significant growth in the EY offices located in those countries in the past couple of years. Sita says that despite recent headwinds the Nigerian economy is facing – mainly due to the oil crisis – the number of EY professional staff has almost doubled in the past two years. "We continue to diversify as we respond to the increasing complexity and growth opportunities our clients are experiencing in that market."

Kenya, despite security concerns, is fast developing into a telecommunications and IT hub for central Africa. Nigeria's 200m population and growing middle class makes this a tantalising market for many SA corporations. Ghana, Mali and Burkina Faso remain important destinations for mining and infrastructure investment. Growth in Southern Africa is no less promising, especially Mozambique, Angola, Botswana and Zambia. Companies entering these markets require on-the-ground intelligence that all Big Four firms are now equipped to provide.

Deloitte Africa is an integrated practice with a presence in 15 English-speaking countries across the continent to provide consistency of service throughout. Says Bam: "Our expansion in Africa has largely been about ensuring that we equip all our practices with a broad range of services. We are very excited by the opportunities that Africa as a whole is presenting. The drop in oil prices is affecting some of the oil-dependent regions but we are very confident in the long-term prospects for Africa."

Sectors that are showing strong demand for professional services are finance and banking, fast-moving consumer goods, IT and infrastructure. Big data consulting and enterprise intelligence are relatively new growth strands being added to the arsenal of the accounting firms as their clients move into new markets across Africa.

Ernst & Young Sandton offices

Focus on the customers you want, not the ones you have

BY JP EGGERS

In the 1990s, I worked for a company with the tagline, "We build digital businesses." What many entrepreneurs quickly realise is that building the business is often the easy part. Growing and maintaining the business can be much tougher and figuring out how to appeal to new consumers is no small feat. Consumers are far from homogeneous. Different segments have different risk tolerances, ways of making decisions and – perhaps most challenging for growing businesses – preferences for when and how they adopt innovations.

After Everett Rogers famously made the distinction between early and late adopters, marketing and technology academics identified a number of differences between those who take quickly to innovations and those who don't. Early adopters are typically younger, more willing to take risks and try new things, and more affluent. They are also a substantially smaller group.

For digital businesses looking to grow, these distinctions lead to two

important consequences.

First, what worked with early adopters isn't likely to work with later adopters. In launching new products or services, start-ups tend to accumulate deep knowledge about customers at the leading edge of a technology. But that knowledge doesn't necessarily apply to other consumer groups; that's one reason so many new firms struggle to create second rounds of offerings. To be successful, companies need to innovate for the consumers they want, not the ones they have.

Take Snapchat, for example. The company built its current market and reputation on photo- and video-sharing technology that was intended to be temporary – pictures and messages disappear within 10 seconds of being viewed. While the app is notoriously viewed as a medium for sexting, most users seem to use it simply for entertainment, taking pictures of silly and amusing things to share with friends.

But now Snapchat is looking to move beyond its early adopters – many of whom are students with minimal purchasing power – and get into a broader and more lucrative demographic. This has meant offering different types of content, including mini-TV series and news.

Second, early adopters often view later adopters with disdain (think of that sinking feeling you had when your mother joined Facebook), especially if the offering can be seen as a status symbol or there are opportunities for different user groups to interact.

In extreme cases, an inflow of late adopters can prompt early adopters to abandon a business entirely. There are many reasons why Myspace failed, but early users' frustration with the invasion of businesses and unsophisticated consumer groups undoubtedly played a significant role.

Given the relatively small size of the early-adopter pool, sacrificing a few first-generation users may seem like a minor loss and a worthwhile trade-off. But original users confer a certain legitimacy to a business. Moreover, they pose a potential competitive threat if they become disenchanted and leave. They may lead the charge for – or even founding – a competing business that they feel is truer to your business's original purpose. While there is no way to know for sure, it is likely that the early adopters of Google's search, the iPhone and Facebook included many disenchanted early adopters of Yahoo!, BlackBerry and Myspace.

If that happens, you may find yourself in the midst of a competition between user generations or in a fad cycle where start-ups' short-term popularity is followed by saturation and then by the birth of new start-ups, and so on. Twitter or even Facebook may be vulnerable to this type of cycle.

WHAT TO DO?

Make sure you have the next wave of adopters in mind, not just those on the leading edge. Firms often have much more data on current users than prospective customers and, in organisations that put a lot of emphasis on data, the consequence is that projects targeting existing users tend to win resources while those targeting new ones don't. Firms need something other than beta testing with existing users to figure out how late adopters might respond to a given innovation. Identify the demographics and characteristics of specific potential adopter groups, then use classic tools such as focus groups (online or offline) to gain a better understanding of the needs and wants of the next wave of adopters.

At the same time, actively engage early adopters to ensure that they remain connected to and happy with the business. Even after these early adopters have served their purpose as tastemakers who helped to bring in new consumers, they are still important. Making sure you don't lose them can reduce long-term risk. Amazon's continuous innovation through its Prime programme has played a significant role in giving heavy-using early adopters a reason to remain connected to the brand and the company.

By being aware of the differences between adopter groups and taking those differences into account for strategic decisions, you can help your digital business move past "build" and into "grow".

JP Eggers is an associate professor of management and organizations at the Stern School of Business at New York University.

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NGPLAT

BUY ✔SELL HOLD

Better ways to cash in on rand weakness

AS I CONTINUE TO clean up my portfolio, the next to go is the platinum exchange-traded fund (ETF). In my portfolio this is NGPLT – there is also ETFPLD.

I bought this ETF about one or two years ago as we went into the protracted strike in the sector.

The theory was simple: a platinum shortage coupled with increasing demand would see the price higher and, as a bonus, rand weakness would add further to the price.

However, the platinum shortage story has been solidly disproved as we learnt that the miners had been stockpiling in the years ahead of the strike. This stockpiling meant that much of the platinum demand was actually from the miners and not real industrial demand.

With that in mind and no outlook for improvement anytime soon in the price of platinum, the only positive driver here is a weaker rand. But if one wants benefit from that, there are better ways, such as through the USD ETF from Absa.

So I will be exiting the position – it is small and my loss is around 16%. ■

Simon Brown Last trade ideas

- SELL Renergen
- SELL Clover
- SELL Choppies
- BUY RMBMID

FIRSTRAND

✔BUY SELL HOLD

Recovery seems underway

FIRSTRAND COULD BE set to reclaim previous losses, which should be seen against a backdrop of an overextended banking index and the resignation announcement of CEO Sizwe Nxasana.

After nine years at the bank, Nxasana will step down from his role at the end of September, and will be replaced by his deputy Johan Burger. FirstRand has become Africa's largest bank by market value under Nxasana's tenure, so it comes as no surprise that some investors became edgy and sold when his departure was announced.

Currently holding the title of the biggest bank in the country by market share and earnings, FirstRand is aggressively focusing on being a game changer by increasing its high innovation rate in technology banking. There's also a lot of debate on whether it needs its own mobile telecom licence to compete with companies such as Apple and Google, which are launching mobile payment services. However, its expansion into the rest of Africa, compared to the other major banks, is continuing at a snail's pace and a number of its proposed deals have fallen through.

Nevertheless, a short-term recovery to its all-time high at 5 850c/share seems underway and to profit from this, the best entry point would be at any level above 5 315c/share, marking the end of the three-month bear channel. Resistance may be encountered at 5 540c/share and if so, stop losses must be carefully monitored. Otherwise, upside above 5 540c/share should pave the way to the 5 850c/share all-time high. FirstRand could even extend its uptrend to the 7 135c/share targeted level calculated from a pattern breakout on the weekly chart. Failing which, a reversal below 4 995c/share could steepen the bear trend to the 4 695c/share next support level. In which case, sell! ■

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Moxima Gama Last trade ideas

- BUY MTN Group
- BUY Brait SE
- BUY Pan African Resources*
- BUY Afrimat*

*Selected by Warren Dick

Impressive performance from this **low-risk** option

PSG WEALTH INCOME FUND OF FUNDS

The objective of this fund is to achieve income with some long-term capital appreciation as interest rates allow. It is aimed at investors seeking returns in excess of that provided by money-market funds or cash, or those who want to draw a regular income stream without consuming capital. It is a low-risk option and the proposed investment time frame is shorter than three years.

FUND INFORMATION

Benchmark:	STEFI 12-month NCD rates
Portfolio managers:	Adriaan Pask
Minimum investment amount:	R2 000 lump sum, R250 per month
Total expense ratio (TER):	0.9%*
Fund size (Rbn):	1.48
Contact information:	021 799 8000 and info@psgam.co.za

**The TER is for the Class D category of the fund, and is annualised for the period 1 April 2014 to 31 March 2015.*

FUND PERFORMANCE
(ANNUALISED, AS AT 31 MAY)

	1-Yr	3-Yr	5-Yr	7-Yr	Since inception
PSG Wealth Income Fund of Funds D	7.9	6.8	7.7	8.2	8.3
Benchmark	6.8	6.2	6.1	6.3	6.7

**1 June 2009*

PORFOLIO COMPOSITION
(AS AT END MAY)

1	Domestic bonds	47.3%
2	Domestic cash	36.06%
3	Offshore bonds	7.11%
4	Domestic property	2.96%
5	Domestic equity	1.57%
6	Offshore equity	1.4%
7	Domestic preference shares	1.27%
8	Offshore cash	1.24%
9	Offshore property	1.09%
10	Union Pacific Corporation	0.7%
	TOTAL	**100%**

Fund manager insights

PSG Wealth's Income Fund of Funds has been one of the top-performing funds in its category over the past two years, based on Morningstar ratings, and is ideally suited for investors who are looking for an alternative to putting their cash in the bank.

It is popular among retirees, but also entrepreneurs who want a higher yield on excess capital than what they would receive at the bank, says fund manager Adriaan Pask. Distributions are paid four times a year.

With interest rates expected to increase later this year, the fund has limited exposure to asset classes that typically don't do well when rates rise, such as listed property and preference shares. Its exposure to the bond market is largely to short-term bonds, where rising interest rates will have a very limited impact, Pask says. It has a cap on equity exposure of 10%; current exposure is just under 3%.

The fund also offers very limited offshore exposure, and is hedged against exchange rate volatility, Pask says. "If you're looking at an investment of three years or longer, you can take up exchange rate risk," he says. In a fund like this, where the investment horizon is typically shorter, there is very limited room to take up that risk.

WHY *FINWEEK* WOULD CONSIDER ADDING IT

Investors in this fund will mainly be looking for yield enhancement – that is yields that are higher than those you can achieve by simply putting your money in the bank. While it is riskier to invest in this fund, it is still a very conservative investment option, with a risk profile similar to that of government bonds. The fund's track record speaks for itself – it has outperformed the benchmark since inception, and on an annualised basis over the past five years. ■

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finweek

AVI confident despite hostile environment

BY MOXIMA GAMA

Branded consumer goods group AVI is struggling to pull through after a 40% run that started in the final quarter of 2014. Funnily enough, that's when the weekly relative strength index (RSI) started to negatively diverge. So the signs of weakness have always been apparent, and if you took the contrarian route, you'd have sold on the upside. Nevertheless, direction now will provide a better perspective.

AVI manufactures, processes, markets and distributes branded consumer products in the food, beverage, footwear, apparel and cosmetics sectors in South Africa. The Entyce segment sells tea, coffee and creamer products to out-of-home consumption market, including airports, hotels, caterers, restaurants and corporates.

Brands include Five Roses, House of Coffee, Ciro and Lavazza. Other divisions include Snackworks (holding the Willards and Bakers brands), I&J, Indigo Brands (includes Yardley, Rimmel and Sally Hansen) and footwear and apparel brands Spitz and Green Cross.

> AVI REPORTED AN **11%** INCREASE IN REVENUE TO R6BN IN THE SIX MONTHS TO END DECEMBER, DESPITE PRESSURE ON CONSUMER SPENDING AND RISING INPUT COSTS.

AVI reported an 11% increase in revenue to R6bn in the six months to end December, despite increasing pressure on consumer spending and rising input costs stemming from the weaker rand. Price hikes in consumer products seemed to have protected its gross profit margins, which increased slightly to 44.5%.

AVI said it expects the constrained consumer demand environment to persist and possibly worsen if interest rates continued to rise. However, it felt confident that it was well-positioned to weather a difficult trading environment. AVI said it would continue to pursue growth opportunities from the current brand portfolio, and was remaining vigilant for brand acquisition opportunities both domestically and regionally.

On that note, the group recently injected about R65m to grow its coffee creamer production capacity (it owns the Ellis Brown brand), to accommodate the rising demand for the milk and cream substitute. In doing this, it has increased its share of the South African creamer market to marginally below 40%. However, despite its strong performance in the half-year, sentiment seems adverse, with AVI potentially topping out.

POSSIBLE SCENARIO: If the RSI remains bearish, AVI could breach the 7 515c/share key support level. The descending phase of the topping-out pattern would commence, with AVI potentially falling to the 6 305c/share prior low, or even the black bold trendline (previously a resistance trendline dated back to 2012). If so, investors should sell.

ALTERNATIVE SCENARIO: Upside above 8 690c/share, followed by an RSI bullish breakout, would end the current bearishness. AVI could then form new highs. ■

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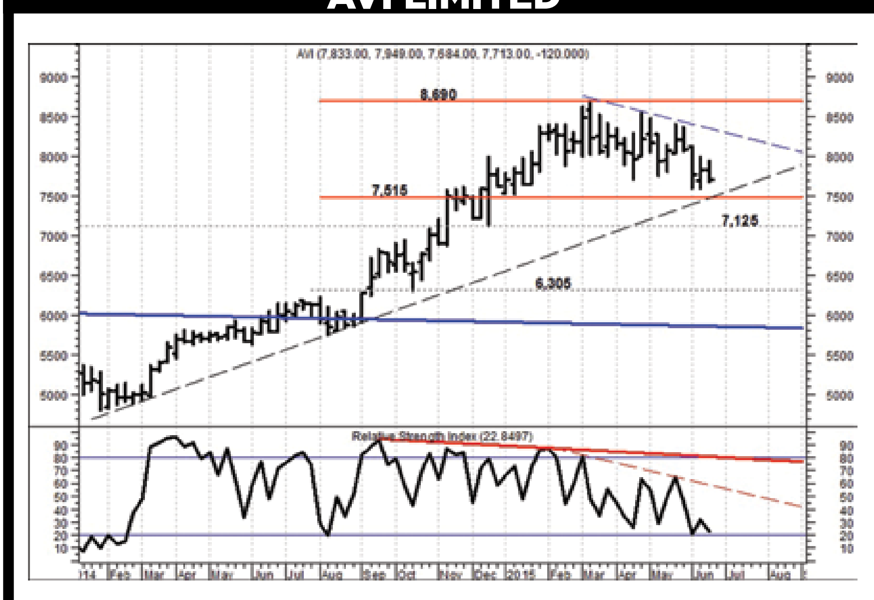
AVI LIMITED



52-week range:	R57.58 - R86.91
1-year total return:	35.1%
Current P/E ratio:	19.42
Market capitalisation:	R27.33bn
Earnings per share:	R4.06
Dividend yield:	3.96%
Average volume over 30 days:	682 665

SOURCE: Bloomberg.com

The low-down on **government bonds**

BY SIMON BROWN

We wrote about company debt last week, the good and the bad. But what about investing in debt?

Debt is traded via bonds in the bond market. This is one of those dark mysterious places the average investor knows little about, except that the troubles in Greece and other EU countries is directly linked to their government bonds. But we shouldn't be afraid of bonds as the concept is easy enough to grasp.

Bonds are issued by corporates, governments and state-owned enterprises (SOEs) and we'll focus on the latter two. When a government realises it needs more money, it can raise taxes (which it'll often do), but it can also pop off to the bond market and raise money there. In short, the government is borrowing money from investors to fund its spending habits.

This debt is in the form of a bond with a maturity date when the principle debt must be repaid. There is also an interest rate that has to be paid regularly over the life of the bond. Both are guaranteed by the issuer – be it a government, an SOE or company. In the case of an SOE (such as Sanral and Eskom) the guarantee is actually from the relevant government.

What is critical is the perceived ability of the issuing government or SOE to make the regular interest payments and the ultimate final payment.

The perceived risk associated with the ability to repay the debt will determine the rate of interest the bond market wants in order to take the risk of buying the bonds.

Currently the US 10-year bonds pays 2.31% interest, while the Greek 10-year bond will give you 12.56%. South Africa pays about 8%.

The different rates are based on the perceived risks. So we see the interest rate on Greek bonds is markedly higher than that of the US or even SA bonds. This risk is monitored by the rating agencies – Standard & Poor's, Moody's and Fitch – which continually evaluate the risks and assign a credit rating to each country's debt. In 2011 the US credit rating was downgraded to AA+ from AAA (negative outlook).

What is important to understand with bonds is that one is making money as the yield (rate) goes down. The logic is that you pay more to achieve the payment, hence falling yields (interest rates) equal profit for the investor. That said, many buyers of government bonds are looking to hold until expiry and that expiry can be anything from two years to 30 years.

The attraction of investing in government bonds is the safety – and yes, in some cases, that has been blown out the window by the global financial crisis

Gallo Images/iStock

> "THE PERCEIVED RISK ASSOCIATED WITH THE ABILITY TO REPAY THE DEBT WILL DETERMINE **THE RATE** OF INTEREST THE BOND MARKET WANTS IN ORDER TO TAKE THE RISK OF BUYING THE BONDS."

– but SA and US government bonds are not at risk of default. The other benefit is the diversified nature of bonds in that they typically don't track equities over time and pay a high rate of interest.

In days gone by it was very expensive and difficult for private investors to gain exposure. But these days there are a number of exchange-traded funds (ETFs), such as NFGOVI from Absa and the CPI-linked RMBINF from RMB and NFILBI again from Absa (all three qualify for the tax-free savings accounts).

The RSA Government Retail Bond is another easy way to get exposure to SA government bonds. This retail bond has zero fees and pays a decent (albeit taxable) income.

These bonds are bought directly from government (via the Post Office) and have a number of different durations and rates. Importantly, these have to be held until maturity – there are penalties for early exits. The ETFs can be traded like any other ETF via a stock broker or ETF platform. ■

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Tax-free saving: **The ideal portfolio**

BY CRAIG GRADIDGE
Co-founder of Gradidge-Mahura Investments

The introduction of tax-free savings accounts (TFSA) to the SA retail investment landscape was widely hailed and supported. These are products that carry no tax liability for the investor, irrespective of how returns are earned.

Unfortunately, the biggest marketers of TFSAs have been the banks, offering varying rates of interest to the investor. This is unfortunate because TFSAs will only be effective if the underlying investment strategy is sound.

The problem with interest returns is that every taxpayer is given exemption for interest they earn, from R23 800 (for those up to the age of 64) to R34 500 (for those at 65 and over). At an interest rate of 6%, a person below the age of 65 could invest almost R400 000, and someone over 65 could invest R575 000 before tax, without the restrictions of a TFSA product.

The big taxes to avoid are income tax, capital gains tax (CGT) and dividend tax (DT). Any investor earning more than R393 200 a year is on a marginal income tax rate of 36%. DT is 15%, while CGT is 13.7% for a taxpayer on the top marginal rate of 41%.

For an investor to create wealth, they would need to find growth assets like listed property, equities and offshore assets. The capital growth from these assets attract CGT; rental income attracts income tax; while dividends from shares attract DT. The ability to avoid these taxes through a TFSA adds significantly to the wealth of an investor over time.

THE GRINDROD BALANCED FUND

Every investor is allowed to invest up to R30 000 a year (R2 500 a month) and R500 000 over his or her lifetime. So an investor would reach the lifetime limit only after more than 16 years. In the beginning, however, they would be unlikely to be able to create an appropriately diversified portfolio with the regular or lump-sum amount. So a diversified fund with exposure to equity,

> A DIVERSIFIED FUND WITH EXPOSURE TO EQUITY, LISTED PROPERTY AND OFFSHORE ASSETS WOULD BE A SUITABLE INVESTMENT CHOICE.

listed property and offshore assets is a suitable investment choice. One such fund is the Grindrod Balanced Fund. The equity exposure is largely dividend-yielding, it has a higher property exposure than the sector average (below 5%), and it has good offshore exposure. The fund is priced at 1% plus VAT and has about R230m invested in it. It has a short but solid track record – only starting on 1 March 2012.

Since inception it has outperformed the JSE All Share Index, the sector average, and the three biggest funds in the category. This period has, unfortunately, not thrown up any major challenges for the management team, so the jury is still out on the long-term sustainability of the performance, especially on a relative basis. We do, though, like the philosophy of the team in managing money, and are willing to give them the benefit of the doubt on that basis. The fund can be accessed through Grindrod's TFSA product, or an open-architecture platform from one of the large, linked-product administrators. ■

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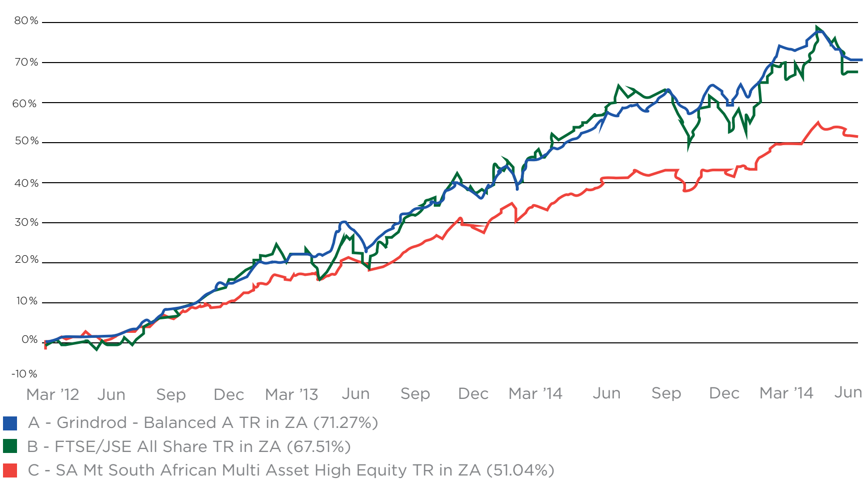
HOW THE GRINDROD BALANCED FUND STACKS UP



SOURCE: GM Investments

RSA equities	54%
RSA property	15%
RSA cash	15%
Global equities	9%
Global property	6%
Global cash	1%

Simon's stock **tips**

BY SIMON BROWN

BEST AVOIDED

One of the issues with Ellies has been its debt. It has restructured with Standard Bank on terms that seem to be mostly fair, though some refer to Johannesburg Interbank Average Rate (Jibar) plus margin, with no sign of what that margin actually is. Further, much of the R200m the company will be raising through the rights issue will be used to pay off its debt. So while Ellies will still have debt, it will hopefully be manageable, and management can start to tackle getting the businesses back on track. That said, risks remain, and I would still not be a buyer.

PICK THE TRUE WINNER

There are reports that some questions were asked at the Zeder annual general meeting (AGM) about the massive management/performance fee it is paying back to PSG. For the year ending February, it was R118m, leaving R257m in headline earnings. PSG is, of course, very happy with this arrangement but it does prevent me from ever becoming a Zeder shareholder. The real winner here is always going to be PSG.

TAKE THE CASH

Stellar acquired about 16% of Cadiz back in April. It has now made an offer to acquire the balance of the Cadiz shares at an effective 129c, and to delist the company. Existing shareholders can elect to receive Stellar shares, and many will – because Stellar is controlled by Christo Wiese. But Wiese has his fingers in many investments and with a market cap of about R600m, this really is a very small investment in his life. I personally would take the money option.

Christo Wiese

TAKE NOTE

There's been a small but important change to the Satrix Resi10 exchange-traded fund (ETF). Currently the rules prevent any stock from making up more than 35% of any collective investment scheme (CIS) fund, but BHP Billiton* has been above the 35% threshold in the Resi10. The JSE has now issued a new index called the FTSE/JSE Capped Resource 10 Index which prevents any stock being more than 35%. So BHP Billiton will be down-weighted and holders of the STXRES ETF must now track the new index rather than the vanilla Resi10 index.

Operations at BHP Billiton subsidiary Ingwe Collieries in Middelburg, Mpumalanga

UPWARD TRAJECTORY WON'T LAST

Anchor Capital's share price has been drifting lower; after hitting 1 220c in March, it is trading just above 1 000c at the time of writing. Many readers have emailed and tweeted me asking why this is. I have no idea but when a stock goes vertical, as Anchor did, it is highly unlikely to go up forever. At some stage, people will start to take profits, resulting in selling pressure and a falling share price. As I always say, revisit your original reasons for buying and if they remain in force, don't panic. Of course, if the original reason for buying was for a quick profit, then you should ask yourself what your stop loss was.

NO NEED TO PANIC

Greece continues to hog the headlines as the end-June deadline looms large. The question is what impact a default will have. The short answer is very little. The Greek economy is very small (smaller than South Africa's) and while a default will hurt Greek bonds and the stock market, any concerns about contagion are misplaced. The past five years of this Greek drama have allowed anybody who was worried to exit and those left are fully aware of the risks. Further, a global market crash as a result of a Greek default is just not going to happen. A crash happens quickly, not in slow motion, and this Greek drama really has unfolded at a glacial pace. So any weakness due to a Greek default will be a great opportunity to buy quality shares at lower prices. ■

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The writer owns shares in BHP Billiton.

A TEAM THAT CAN SCORE *AND* DEFEND

BY SCHALK LOUW
PORTFOLIO MANAGER AT PSG WEALTH

THE PROSPECT OF THE RUGBY WORLD CUP LATER THIS YEAR ENCOURAGED ME TO SHOW I, TOO, COULD CHOOSE A WINNING TEAM FOR THE MODERATE INVESTOR. I WON'T BE USING RUGBY PLAYERS, OF COURSE, BUT RATHER INVESTMENTS YOU CAN CONSIDER WHEN BUILDING YOUR OWN BALANCED PORTFOLIO.

PROPS

These are usually the heaviest players on the field and their main responsibility lies in scrum support and line-outs. In my PSG Old Oak team, I would choose the local money market as one of my props and allocate 13% of my total team weight to this investment. The money market may not be that mobile and there will be no capital growth in these investments, but the stability they provide should curb excessive volatility. I would invest the other prop (9.5%) in exchange-traded notes (ETNs), which give exposure to offshore money markets. These investments may not always be stable in rand terms due to currency movements, but a currency like the US dollar may provide good stability and the ability to fight inflation.

HOOKER

These players can also be found at the front of the scrum. They are supported by the props on both sides and they have to ensure possession of the ball. They are usually more mobile than the props and are responsible for throwing the ball in line-outs. In my PSG Old Oak team, I would allocate 9% of my team weight to the RMB Inflation-X exchange-traded fund (ETF). These securities do not only form the backbone of the scrum, but they should be manoeuvrable enough to withstand possible inflationary pressure that may arise as a result of our weak rand.

LOCKS (SECOND ROWS)

The locks are usually the two tallest players in the team and their central role is to anchor the props and the hooker in the scrum. They should also be able to jump high in order to catch the ball in line-outs. Here I will select two property shares, with my current preference being the local Growthpoint Properties and the offshore INTU Properties. My locks will each carry 4.5% of the total team weight.

FLANKERS

These players bind to the outside of the scrum and are mainly used as ball hunters. Both of them need to be energetic and fast. This is to make sure they reach the ball first, and then to either enforce possession or maintain it. My choices for these two players in the PSG Old Oak team would be Sasol and BHP Billiton shares, which will carry 4.5% each of the total team weight.

NUMBER EIGHT

This player usually binds at the back of a scrum and initiates attacks. He is situated in the middle behind the scrum so he can break away to the left when a defence attack comes from the right, and vice versa. I would choose Anglo American as number eight for the PSG Old Oak team, simply because this player is big, strong and well-diversified. Should platinum begin to struggle on one side of the scrum, there is iron ore and other metal interests to attack on the other side. Resources, however, are still under pressure and I would limit this share's team weight to 2%.

SCRUM-HALF

This player usually receives the ball from the scrum or maul and is responsible for giving it to the backs. Though the scrum-half is usually a smaller player in the team, his position remains crucial and he must possess a wide variety of strengths, like being able to kick, pass and run. For this position in the PSG Old Oak team, I will choose Remgro for its diversity, allocating 6% of total team weight to this position.

FLY-HALF

The fly-half has to be one of the most tactical players on the field and is often referred to as "the general". A share that should do well as global economies continue to grow – and be able to kick if the rand weakens – is "General" Richemont. I would give this player 6% of my total team weight, as he is strong in the world market of luxury goods.

CENTRES

Centres usually find themselves at the heart of the backline. My two centres in the PSG Old Oak team would be Nedbank and SABMiller, because these shares stand at the heart of the economy. They would each contribute 5.5% to the team.

WINGS

These players are fast runners and stand on either side of the back line. When looking for players who can run fast, I would have to choose MTN and Steinhoff as my favourites. Big names have paid interest in these "players", and they are still priced relatively more cheaply than their international competitors. This makes them two attractive inclusions, so they will each carry 5.5% of the total team weight.

FULL-BACK

This player, as the name suggests, can be found right at the back and has two main tasks: joining the back line when it is being attacked and because he usually stands way at the back offering strong defence. There are a number of offshore ETFs traded on the JSE, which would be good options for a full-back, so this player can carry 14.5% of the total team weight. Should equity markets continue to rally, DBX World (a foreign ETF that tracks the MSCI World Equity Index) could easily join the back line. If the rand loses more of its value, DBX World should be able to defend the team to an extent, and hopefully be able to catch that high kick. ■

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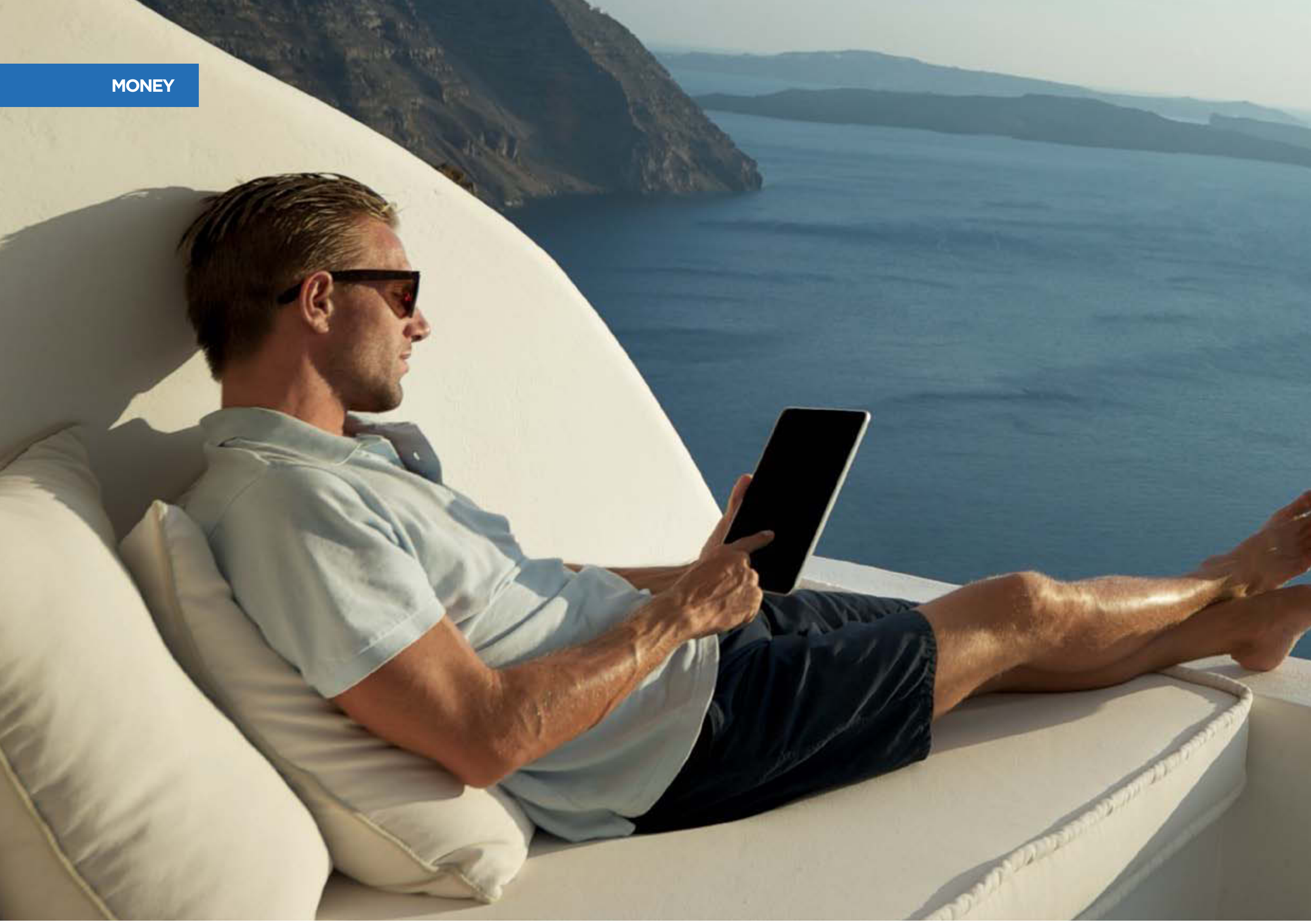


Financial planners not only for the rich

BY JUSTINE OLIVIER

The savings landscape across South Africa is, unfortunately, not a positive one. With only one in five people seeking financial help, it's no wonder that many are finding themselves in a dire situation with their finances.

One of the main reasons people don't consult a financial adviser is that they feel they don't have enough money to do so. In fact, a comprehensive and detailed financial plan is beneficial to everyone – no matter the income level.

"Consulting a professional will help you strike a balance between your daily living expenses and medium- and long-term financial goals. With all the financial pressures facing South African consumers – from electricity hikes, petrol price increases and soaring food prices – people are struggling to cope from day to day. So it becomes quite challenging to take our eyes off our immediate problems and think about saving for a rainy day," says Karin Muller, head of growth market solutions at Sanlam.

She says seeking the help of an accredited financial planning professional will help you get a holistic view of your financial situation and plan for the future. "A comprehensive financial analysis will enable you to determine your specific needs and goals, identify areas of risk and pinpoint any gaps you may have," explains Muller.

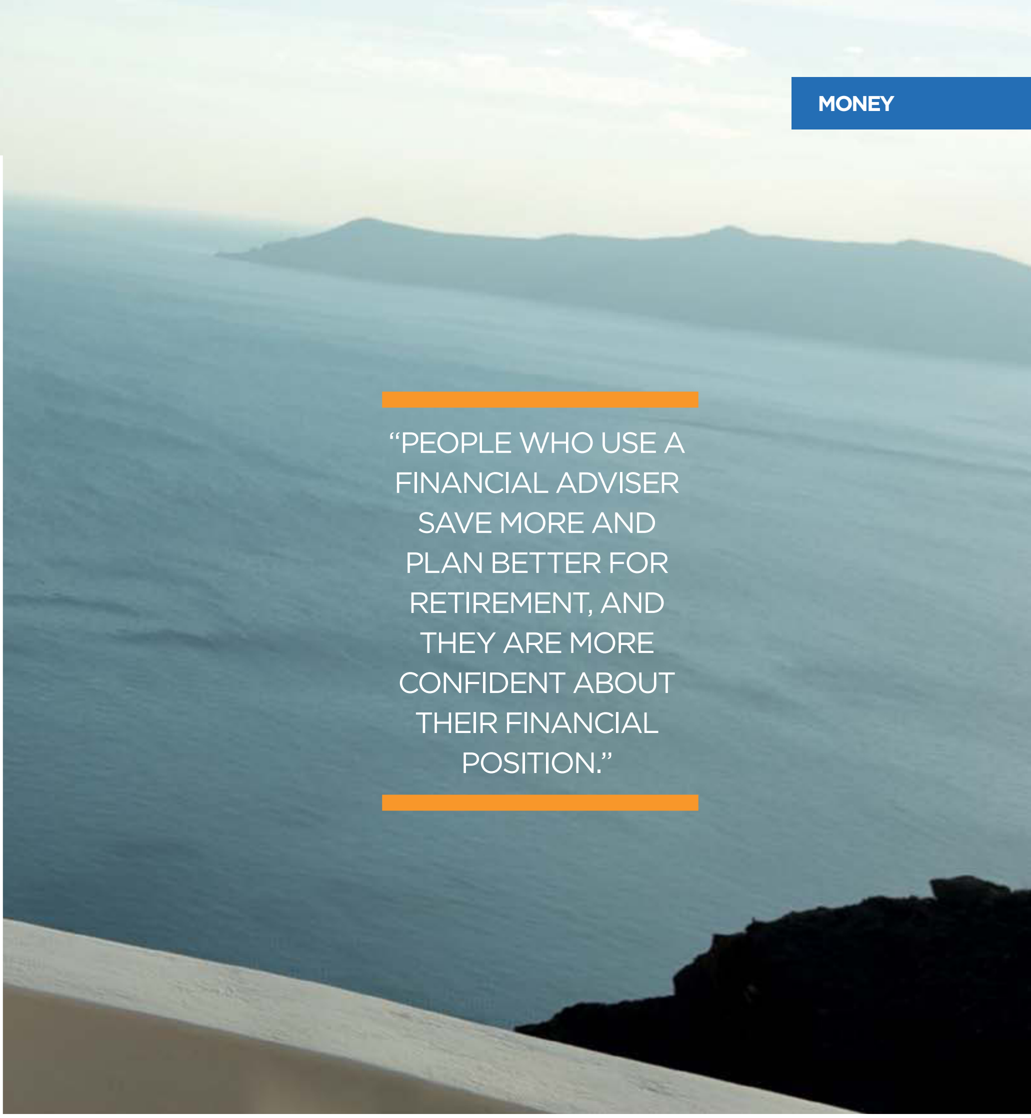
It doesn't matter how much money you may have in your bank account; getting professional help will give you focus and clarity on the direction you want to go in. You will also receive advice on how to get there.

If, however, you feel you are too far in debt to go to a financial planner, think again. Says Eunice Sibiya, head of FNB consumer education: "Even though you may not have funds to

CULTIVATING GOOD FINANCIAL HABITS

BASIC FINANCIAL TIPS FOR CONSUMERS TO FOLLOW, ACCORDING TO ABSA:

1. **IDENTIFY AND DOCUMENT YOUR GOALS IN A FINANCIAL PLAN**
   Your financial plan should consist of the goals you are working towards. These things should include home ownership, starting a family, saving for university and career goals. This plan will keep you on track. It helps to have a solid goal. Your financial plan will keep you moving forward so you don't stall in one stage and fail to reach the goals you want financially.
2. **MAKE WELL-INFORMED CHOICES**
   Track your spending. Start by keeping a daily record of all your purchases for 30 days. At the end of 30 days, analyse how much money is spent on various items – food, rent and entertainment, for example. From this analysis you will be able to determine what areas of expenditure could be improved upon.
3. **SET A BUDGET – AND STICK TO IT**
   Budgeting is empowering because it gives you more control on where your money goes. With a detailed budget, you can make conscious decisions on what is most important, and make sure that your spending matches those decisions. A budget helps you gain control of your money.
4. **SAVE MONEY**
   The habit of spending less than you make is one of the best you can establish. It gives you the opportunity to really begin to build wealth.
5. **DON'T BORROW MONEY**
   With the exception of buying a home, you should do everything you can to avoid borrowing money. Once you start using a credit card, it can be hard to stop – and before you know it you could be overwhelmed with debt. It takes extra planning and saving to stop borrowing money, but it is worth it. Take the steps and time now to make the changes you need to avoid borrowing money in the future.



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> "PEOPLE WHO USE A FINANCIAL ADVISER SAVE MORE AND PLAN BETTER FOR RETIREMENT, AND THEY ARE MORE CONFIDENT ABOUT THEIR FINANCIAL POSITION."

spread across savings and investment accounts, a financial adviser can talk you through the various options that could become available to you as your money grows and you financial goals change."

This will, she says, serve as helpful information to base future conversations about money on.

In the meantime, while you are meeting a financial planner, there are things you can do immediately to improve your financial situation. Most importantly, work out what money comes in and what goes out. Create a budget to keep track of your spending.

"You can't plan without a record," says Sibiya. "If you don't know where your money goes every month, start by writing down what money comes into your account. Then record every single time any money leaves your account, whether you draw it and spend it, pay expenses or even transfer it into your savings account.

"After noting all the money that has come in and out, you need to write a budget. While it is unlikely that you can significantly increase the money that comes in every month, you are able to control the money that goes out," she adds.

From this budget you can simplify your outgoing expenses to get you back on track. Capturing your spending in writing also helps clarify where excessive or wasteful spending is happening – and allow you to curb spending accordingly. Don't underestimate the importance of budgeting or getting professional help.

Says Muller: "Research conducted by the Insured Retirement Institute shows that people who use a financial adviser save more and plan better for retirement, and they are more confident about their financial position." ■

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Small shares showing more signs of life

BY FRANS DE KLERK

A few months ago, I started writing about small shares that were giving technical buy signals. I was interested to see a trend in the weekend's graphs – something I noticed only because I page through them all at once – and I felt I should pass it on.

All the shares showed the same symptoms. There was a major consolidation, then a massive volume and then, not long after that, the shares started showing signs of life.

Coal of Africa was the first share to shoot the lights out after I highlighted it. Jubilee Platinum, WG Wearne and Esor followed suit and their graphs are already looking better. Bauba Platinum was the next share that caught my eye.

I'm going to highlight Bauba Platinum, along with Coal of Africa and Jubilee's graph, so you can see what I saw – when a share experiences a recovery and gets life. ■

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Frans de Klerk is an independent technical analyst.

LINE A (39C) CHANGES INTO SUPPORT.

- A sharp jump in volume (3.9 m) of shares took place.
- The 200-day moving average (45) changed into support.
- For medium- and long-term investors, buy above line A but use 35c as a stop-loss to protect capital. If the momentum can increase to more than 50c, the targets above this figure are 51c, 53c, 55c, 57c, 59c, 60c, 62c, 64c, 66c and 70c.

NOTE: Bauba Platinum catches the eye and we do not know whether the director, Mathews Phosa, has something to do with it. Phosa (the former premier of Mpumalanga and former treasurer general of the ANC) is also a director of Jubilee Platinum, which has already started to increase.

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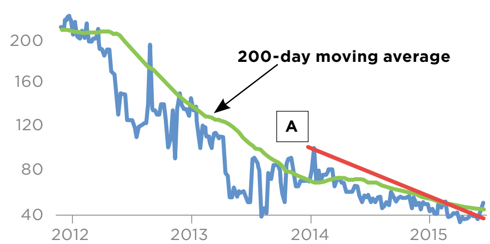
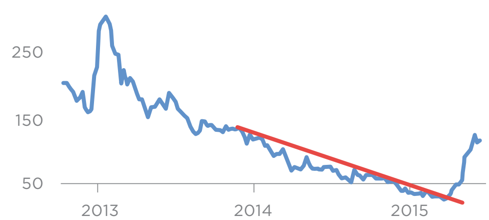
BAUBA PLATINUM



52-week range:	R0.25 - R0.60
1-year total return:	-24.6%
Current P/E ratio:	-
Market capitalisation:	R163m
Earnings per share:	-R0.04
Dividend yield:	-
Average volume over 30 days:	81 256

SOURCE: Bloomberg.com

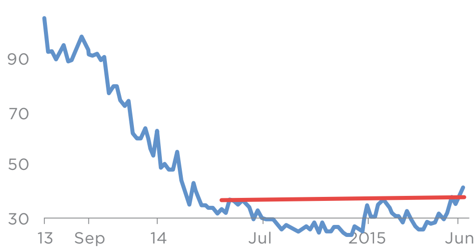
COAL OF AFRICA



52-week range:	R0.22 - R1.50
1-year total return:	+18.9%
Current P/E ratio:	-
Market capitalisation:	R1.5bn
Earnings per share:	-
Dividend yield:	-
Average volume over 30 days:	2 574 707

SOURCE: Bloomberg.com

JUBILEE PLATINUM



52-week range:	R0.21 - R0.54
1-year total return:	+32.4%
Current P/E ratio:	-
Market capitalisation:	R352m
Earnings per share:	-
Dividend yield:	-
Average volume over 30 days:	512 168

SOURCE: Bloomberg.com

MONEY 101: 11 hacks to help you save

BY KRISTIA VAN HEERDEN

IF YOU'VE BEEN STRUGGLING TO BALANCE YOUR BUDGET, YOU MIGHT THINK IT'S IMPOSSIBLE TO SAVE. THIS WEEK, *FINWEEK* SPOKE TO FINANCIAL EXPERTS ABOUT THE UNCONVENTIONAL WAYS IN WHICH THEY SAVE. APPLY THE TIPS BEST SUITED TO YOUR LIFESTYLE AND WATCH YOUR NEST EGG GROW.

RENEE EAGAR, A CERTIFIED FINANCIAL PLANNER AT BRENTHURST WEALTH, SHARES FIVE OUT-OF-THE-BOX WAYS TO SAVE MONEY.

1. PLANT FAKE FLOWERS IN YOUR GARDEN: Considering the constantly rising utility rates in SA, saving on water can make a difference to your monthly household budget. It will give your yard a lovely look all year round, even in winter, with a much-reduced maintenance cost.

2. SAVE YOUR COINS: Empty out your wallet once a week and place all the R1, R2 and R5 coins in a jar. You will be amazed how quickly it adds up. If you are really committed to saving, deposit this in a savings or unit trust account for your children every six months.

3. DELAY CHRISTMAS: Agree with your family that you will celebrate Christmas after Christmas. Buy gifts at the post-Christmas sales at reduced prices and have your gift-sharing event on New Year.

4. HOARD YOUR LOYALTY POINTS: Don't spend cash-back rewards such as eBucks and UCount during the course of the year. Keep them for times when expenses go up, like the annual family holiday.

5. KNOW THE BENEFITS: Study the benefits of loyalty programmes like the ones offered by medical aids. The savings available to members with high point totals are worth it!

NITESH PATEL IS THE HEAD OF CUSTOMER FINANCIAL SOLUTIONS AT STANDARD BANK PERSONAL BANKING. HERE ARE HIS TOP SAVINGS TIPS:

6. LOCK UP YOUR SAVINGS: Open a savings account and sign a monthly debit order towards the account. If you are often tempted to spend your savings before your actual savings goal has been reached, ensure you open a savings account that doesn't allow easy access to the funds. Don't even link it to your internet banking profile or your ATM card.

7. HORSES FOR COURSES: You can open different savings accounts for different purposes. For example, save for your annual holiday in a 12-month investment account with monthly debit orders. Save for emergencies by opening a call deposit account so you have easy access to those funds when there is an actual emergency. Save for school fees through a fixed deposit account. Most schools will offer you a discount if you pay the annual fee up front. Most savings accounts have minimal or no monthly fees, so it's easy for you to save.

8. CHEAPER INSURANCE: Shop around for lower-cost insurance policies that offer the same benefits as your current insurance policy and adjust your insurance policies based on your needs at any given time.

9. RETHINK YOUR GROCERIES: Consider buying groceries in bulk and don't buy premium brands, especially when the product performs a basic function. For example, avoid coloured sugar cubes and jams in fancy glass jars. Nearly half the cost for name brands goes to advertising. Usually the quality isn't any better than the more mundane brands. This applies to almost all food, cleaning materials, paper products, drinks and clothing. Even if the savings seem insignificant, they really add up in the long term.

10. BAG IT: Take your own lunch to work. It can save you thousands. It will generally be healthier too.

11. DRIVE IT TILL IT DIES: Keep your car as long as you can and avoid faddish cars. Today's cars are built to last well over 200 000km if serviced regularly. ■

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Got a bond? Why **life cover** is a must-have

BY GLENDA WILLIAMS

Gallo Images/iStock

"I have seen the downside. I have seen the families who have not been covered or adequately protected and I have seen the tears. In the event of the death of the [bondgiver – the person paying the bond; the bank is the bondholder], life cover can make a very traumatic situation that much more bearable. Lack of it can make a distressing situation even more of a tragedy." So says Donovan Adams, a certified financial

planner with Chartered Wealth Solutions, speaking on the plight of families who have lost the family member responsible for paying the home loan.

Losing a family member is tragic enough without the added complication and trauma of financial hardship on those left behind. Reason enough for home loan applicants to think long and hard about life cover or mortgage protection cover to provide dependants with a roof over their head in the event of a life-changing event such as death.

ABOUT LIFE COVER

Life cover or life insurance is a means of ensuring that money is available to settle all outstanding debts and provide dependants with financial security in the event of the death or disability of the person whose life is insured. Importantly, the cash sum paid out can be used to settle debt like the home loan that could then allow dependants to keep their home. Mortgage protection insurance, another type of life cover, is limited to provision of cover for the home loan only. Sadly, in the event of death, disability or loss of income, the dependants of those breadwinners with no life cover or mortgage protection face the very real possibility of losing their home.

Yet, taking out life cover or mortgage protection to cover a home loan is not always mandatory and some homeowners, loath to incur any additional monthly costs, opt to forego this option.

Gambling on the odds that a life-changing incident would not impact them or their families, the uptake of life insurance products among South African consumers only amounted to 15% in 2013, according to a survey conducted by FinScope. Males made up the majority of those with life cover at 19%, compared with females at 12%. The report also reveals that at least 55% of life cover policyholders fall into the more affluent LSM 9-10 (living standards measure) group.

South Africa is not alone in its woeful mortgage protection statistics. A 2014 report by *The Association of British Insurers* reveals that of the 26.4m households in the UK in 2012, only 3.1m had mortgage protection.

These low figures point to a possible lack of understanding among bondgivers about the value of life cover. The long and short of it, says Adams, is that there should be life cover in place for homeowners who have a bond because it protects the family of the bondgiver. Knowing that, many bondgivers may rethink their position on life cover.

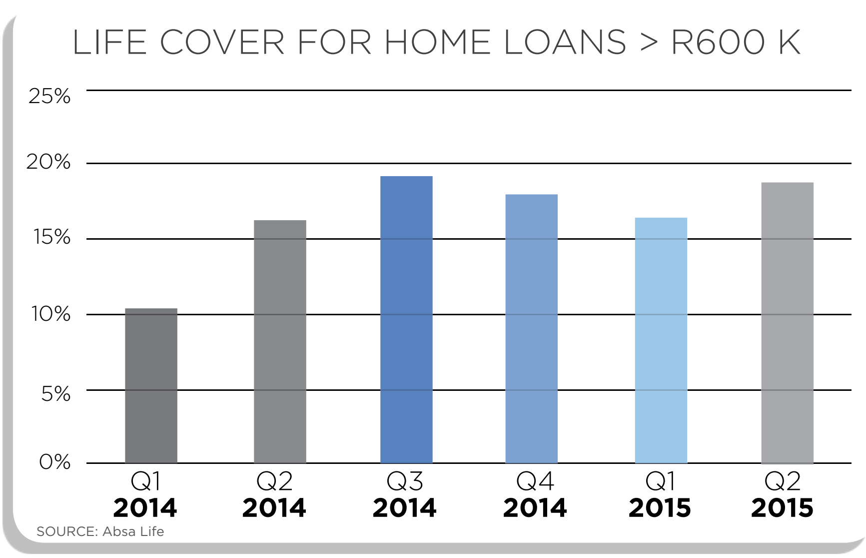
COMPULSORY AND VOLUNTARY LIFE COVER

In South Africa life cover for bond purposes is often voluntary. But in one segment of the property market it is mandatory. “It is a requirement that a borrower in the affordable segment (less than R500 000) has life cover in place,” says Dawid Malan, head of strategic stakeholder engagement at Absa Home Loans. “But it is not obligatory for it to be Absa cover.”

Jannie Venter, Absa Life managing executive says: “The affordable market makes up 15% of mortgage applications.” And the take-up of life cover or mortgage protection with Absa is around 60%, the balance of homeowners using their own provider to conform to the requirement that this segment has life cover.

In all other segments, where life cover is often voluntary, determining how much life cover is linked to bondgivers outside of the affordable market segment is not as straightforward. Here the uptake of life cover or mortgage protection with Absa

> “THE PURCHASE OF LIFE COVER IS OFTEN A RELUCTANT BUY. BUT IF IT INSURES **THE GOOSE THAT LAYS THE GOLDEN EGG,** THEN PERHAPS THIS SHOULDN’T BE THE CASE.”



SOURCE: Absa Life


Jannie Venter

HOMEOWNER'S INSURANCE IS NOT BOND COVER

THERE IS A FUNDAMENTAL DIFFERENCE BETWEEN HOMEOWNER'S INSURANCE AND LIFE COVER. THE FORMER INSURES THE HOUSE, THE LATTER INSURES THE PERSON.

Unlike life cover, homeowner's insurance is mandatory and mortgage providers require homeowners of freehold property to take out homeowner's insurance to cover the property in the event of damage. Sectional title properties are automatically insured through the body corporate and the levies that homeowners pay.

Homeowners are not bound to accept homeowner insurance provided by the mortgage provider and can elect to get this insurance elsewhere. But it must be in place for a bond to be granted.

It can help your savings grow while lowering your risk.

is around 15% (see graph). Venter says this take-up is across various channels, including the use of a financial adviser, where often those with larger bonds tend to incorporate that bond cover commitment together with their total need for life cover.

However, Absa's overall rate of life cover take-up for all mortgages both affordable and non-affordable, is approximately 35%-40%. At FNB, life cover is compulsory for a home loan up to R1m. "But," says Tommy Nel, head of credit at FNB Home Loans, "we will never insist on our own cover and customers are fully entitled to use their own insurance."

Where life cover is a requirement and customers elect to incorporate this into their own life cover rather than a stand-alone mortgage protection plan, the life policy is ceded to the bank, and the bank gets first bite of the apple to cover the outstanding home loan. The remaining amount of the policy, if any, goes to the nominated beneficiaries.

THE RISK FACTOR AND ITS EFFECT ON LIFE COVER REQUIREMENTS

If you are wondering why bond cover is not always mandatory, the reason it appears is the bond provider's risk factor. "Banks or mortgage providers are sometimes happy to waive life cover, especially if it is prime property, because their risk is much lower. But when their risk is higher, rest assured they are going to want your life covered," says Adams.

That risk also seems very much linked to location. If, for instance, the property is in the heart of Sandton or along the Atlantic Seaboard, the bank would be able to sell the property at the drop of a hat. But if it is out in the sticks, the bank is going to ensure that the bond applicant has life cover purely because it knows that finding a buyer for such a property will be no easy task.

"The bank prefers not to be in a position where it has to sell your property and kick you out of the house, so essentially what they are doing is covering their interest by making sure your life is protected," adds Adams. Life cover then is not only a safety net for the homeowner, but also for the bond provider.

The function of lending over the past 20 years also has much to do with the overall low penetration rates of life cover for bondgivers. But, since the advent of new regulations as well as compulsory cover for certain segments, higher penetration rates are reflecting in new business, Nel tells *Finweek*.

Another possible explanation for low bond cover penetration figures is the additional cost to the homeowner's monthly repayments. Using bank-offered bond cover that is added to the bondgiver's repayments may be the most convenient option, but it is not always the most competitive option. "You are better off getting a number of quotes and comparing these with that provided by the mortgage provider," advises Adams.

Modest life cover uptake from the bond provider may also mean that borrowers have cover elsewhere. That could also boil down to a lack of understanding of the value and benefits of life cover.

But life-changing incidents affecting the bondgiver also affect the banks who

> "THERE SHOULD BE LIFE COVER IN PLACE FOR **HOMEOWNERS WHO HAVE A BOND** BECAUSE IT PROTECTS THE FAMILY OF THE BONDHOLDER"

don't want to be put in the position of having to put people out on the street. "Our preference is for customers to take up life insurance, so if something happens to the [bondgiver], the loan is settled," says Nel.

But it's not a preference that can be imposed upon the borrower. The power of choice is in the hands of the consumer and the forcing of any ancillary products upon them is frowned upon. And rightly so. But it does beg the question of whether leaving consumers to their own devices is always in their best interests.

In the more sophisticated market segment, customers often have financial advisers to advise them on their financial planning. But in the lower and middle market, financial planning is not as much of a common feature and banks often take a more direct approach to the educating of these customers on the subject of life cover.

"Where people are not well informed or do not have the financial understanding and expertise or the right people guiding them, it is difficult for them to make these decisions, so we try and play our part as well," Nel says.

The purchase of life cover is often a reluctant buy. But if it insures the goose that lays the golden egg, then perhaps this shouldn't be the case. Understanding the purpose and benefits of life cover could help to change that outlook. ■

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Rattlesnake Books gets its name from *HMS Rattlesnake,* one of four British warships at the Battle of Muizenberg in 1795, marking the first English occupation of the Cape.

Book value

BY JON PIENAAR AND MANDY DE WAAL

In an age when electronic readers like Kindle are starting to take over from the printed word, one might think that the era of books is over. Far from it, says the owner of Rattlesnake Books, a dealer in rare and not-so-rare books and prints.

WOULD YOU PAY R30 000 FOR A BOOK?

That's the asking price for Andrew Berki's most valuable possession. A dealer in rare books, Africana and art, Berki owns Rattlesnake Books in Muizenberg on the Cape's Southern Peninsula.

"If you look in the glass cabinet, there's a LaTrobe. He was a well-known wanderer and I reckon that book is about R30 000 plus. There's a very strong market for Africana both locally and across the globe," says Berki.

Christian Ignatius Latrobe was an English clergyman of the Moravian Church, and a personal friend of Austrian composer Joseph Haydn. Latrobe was a musician, composer and artist who travelled to the Cape of Good Hope in 1815. Between 1815 and 1816 Latrobe visited various mission stations in the Cape. During his travels, Latrobe painted many of the scenes he came across, and these were later used as illustrations in the books he wrote about his travels.

It's this type of good quality Africana that is in demand by collectors. "It's classic supply and demand," says Berki.

"There are many books of which few were printed. The demand is high, if they are fashionable. The Boer War is always fashionable – people collect Boer War books printed during or immediately after the Boer War. So there's quite a high

demand for not a great many books. So the price goes up."

Collectors are on the lookout for first editions by famous explorers, like Henry Morton Stanley and David Livingstone, says Berki, who recounts: "Even back in the day, Stanley realised his books would become popular. So he himself brought out a limited edition, and signed it himself. Even at the time he was buying into this. He was taking a risk, but he knew that what he'd done was sought after. And they've just gone up in value."

Other rarities Berki holds include an early Winston Churchill, and a Dutch chronicle of 150 Christian martyrs, each one illustrated with copperplate engravings. "In the Catholic Church martyrs play an important role. That book lists them, [and] each one is illustrated. In fact, it begins with the Crucifixion, and goes all the way through to the Dutch martyrs being variously chopped up and pushed off cliffs and things. Every page is people being tortured, burnt… It is gruesome, which makes it interesting. But it is rare," says Berki.

It's not only the historically significant that can gain value, he says. Even the first JK Rowling novel, *Harry Potter and the Philosopher's Stone,* was only printed in a small run of 500 because the publishers didn't think it would sell. These first editions are now worth in excess of £20 000 (R387 300). "That's real money," he laughs.

WEALTH NOT A CERTAINTY

Despite the large figures, Berki admits it's not a business that one can make a fortune in. Like any other, second-hand book dealing has its ups and downs. The market is "not as good as it used to be" a few decades ago, he says, which was the "golden age of second-hand book dealing".

"I drive my girlfriend's car, but it's fine," says Berki. "It pays its way, and it pays enough to pay for our home."

INTERNATIONALLY, THE RARE BOOKS MARKET IS WORTH SOME **£322.25M (R6.24BN)** ANNUALLY.

Internationally, the rare books market is worth some £322.25m (R6.24bn) annually, but that's not to say huge profits are being made by dealers. The internet has ensured that the knowledge is freely available, and most of what is available has already been snapped up by dealers and collectors. Occasionally, one might see record sales being made, such as in 2010, when Christie's auctioned a rare copy of *The Birds Of America* by early 19th-century painter and naturalist John James Audubon for just over £7.3m (R142m).

THE BIRTH OF A BOOKSHOP

Berki first fell in love with books as a child. "My father's an academic – there were always books around. He used to drag me into second-hand bookshops, which I hated as a kid.

"But I love books now. I like working with books."

Does Berki enjoy reading?

"Of course. I've got a second-hand bookshop. I love reading," the dealer in rare and carefully curated books laughs, saying he always has two or three books "on the go" at any time – one for the bath, one for bed… and of course, one for the quiet times at the shop.

Apart from the rare and unusual, Berki also carries standard stock in trade.

"Lots of general fiction. I like having fiction paperbacks. There are some expensive things, but then there's good fiction, good literary fiction

Andrew Berki of Rattlesnake Books, Muizenberg

Andrew Berki

Rarities: **A Dutch chronicle of 150 Christian martyrs, each one illustrated with copperplate engravings. "It is gruesome, which makes it interesting," says Berki.**

Rare Africana can fetch a good price, both locally and abroad.

that's cheap – which I'd buy," he says.

Berki opened Rattlesnake Books some three years ago after moving from the UK to South Africa with his partner.

"I started off doing markets. I've been selling books on markets for years. I did it in England. And I did it straight away when I got here," he says.

Taking his stock from market to market posed a problem when some very good books were added to his collection, and the possibility of damaging them started to worry him. Berki was at a market speaking to a customer about how he wanted a store in Muizenberg, when coincidentally the landlord of the very store he was chatting about happened to walk by.

"I asked him about the store – he's a surfer, and I had some surfing books out. He saw those and liked what I did, and said I could have the shop. It was pure coincidence, which is typical Muizenberg," he says.

OLD TREASURES, LOVINGLY RESTORED

Berki adds value to books by restoring and rebinding them. This also gives him additional revenue as people pay for books to be restored and preserved. "The traditional fine binding, it's what I always wanted to do. And I got into selling books so I could get into binding. And there were courses being offered in England years ago on traditional book-binding techniques, and I did a few of those, and then I just carried on doing it. I loved it.

"There is a market for book binding. I'm not rushed off my feet, but there is a waiting list. It's a very slow process. There are lots of different things to do, many different steps in binding a book. And people bring in books that are in pieces and it takes months to rebind," he explains.

The work of rebinding can vary in complexity, depending on how badly damaged the book is. If it's just a case of a broken spine, or a damaged cover, then the job is fairly simple. But some books that are brought to Berki are completely ruined, arriving as individual pages. Then it becomes a laborious task that requires using a special tissue made from Japanese mulberry to extend and rejoin the pages, with starch pastes that Berki cooks up himself from raw flour.

The cover may have to be re-manufactured from board and leather, using different thicknesses at different places. Then there's the leather tooling, to create embossing in the leather, and the very fine art of applying gold leaf, which requires special brass tools that must be heated to just the right temperature, and applied to the letters which are glued in place with egg white.

"It's a very old-fashioned, traditional way of doing it," says Berki, adding: "If you make a mistake, then you can't rectify it, then you've ruined the whole thing and you've got to start again."

Berki shows one of his works – a Bible from the late 16th century that he bought in a rainy car park in South London. "It was just individual pages. It took forever. The pages have all got to be joined at the spine so that you can sew through it. So the pages had to be fixed, then it had to be sewn, the boards made... a huge amount of work."

Berki finished by creating an original cover based on a German expressionist wood cut by Emil Nolde, using two different leathers and 23-carat gold leaf.

Would he ever sell something like that? "It's for sale," smiles Berki, "For R5 000. Which, considering the hours that went into it, is not a bad price."

ON A QUEST

Even though he still sells at markets around Cape Town, Berki has found that owning a shop has brought with it the credibility of a "respected book dealer". So people bring him books and prints from deceased estates or old private collections. "But they know it's good stuff and they want top dollar for it," he shrugs wryly. "Then I go to auctions, I trawl around charity shops, always looking. I love scratching around."

With news just in that a rare, uncorrected proof copy of Ian Fleming's *Goldfinger* was auctioned in the historic town of Aylsham in Norfolk, UK, for the price of £1 800 (close to R35 000), Berki's in the right business. Now all he has to do is find the right book. ■

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Artwork by Andrew Orapeleng Ntshabele

Artwork by Bev Butkow

Soweto trailb

After completing her schooling in Soweto, Zanele Mashumi attended art classes every Saturday for two years at the Funda Arts Centre in Diepkloof because her school did not offer art as a subject.

Later she studied art at the University of Johannesburg and graduated in 2012. She started Mashumi Art Projects the following year and began exhibiting art in Soweto.

"Do you regard yourself as a pioneer?" I ask the petite, softly spoken 26-year-old.

She smiles shyly: "There are people who have called me that, but I don't think about it. I simply do what I must do."

Sandile Memela, author and cultural commentator, is one of those who believe she is a trailblazer.

"Instead of hunting for a job, she started Mashumi Art Projects, not only to teach Soweto about the arts but also to enhance the profile of artists in this township and exhibit their work for them."

lazer rocks art scene

BY JOHAN MYBURG

He believes Soweto could very easily have lost her, as is the case with so many of her peers. "Like many others, she could have loitered aimlessly in Vilikazi Street, ready to disappear into the night with willing punters after a few expensive drinks."

In contrast to many young women, she did not surrender to "the disappointment, hopelessness and victim mentality of a woman from the townships".

Instead she allayed the fears of her single-parent mother – a woman from an era when the art world was not regarded as a sustainable source of income – and followed her own way.

"I believe I'm quite obstinate," she says. "I do not like to do things in the traditional way. It bores me to death."

Mashumi is the curator of Fresh Produce at the Turbine Art Fair this year, which takes place in Newtown, Johannesburg, in July. The project, sponsored by Rand Merchant Bank, aims to discover new talent at the festival. Mashumi has criss-crossed the country searching for young, emerging artists. (See box.)

When she was an art student, she took part in an exhibition arranged by Gordon Froud, an art lecturer at the University of Johannesburg, during the Joburg Fringe in Braamfontein in 2011.

"I remember wondering whether my work would sell. I think I decided there and then that I was no artist.

"My interest lies rather in marketing other people, artists and their work, in discovering new talent."

It was Julia Meintjes who "discovered" Mashumi when she was still at school in 2008 and was working at the WAAS gallery, which sold art and knick-knacks to tourists in Soweto.

To this day, Mashumi regards Meintjes – the woman behind Julia Meintjes Fine Art – as her mentor. "What I know about curatorship, I learnt from her," says Mashumi.

"WAAS wasn't a gallery in the true sense of the word. New works are not exhibited regularly. But this is where I learnt a lot," she gives recognition to the Kliptown gallery.

With an arts qualification behind her name but little business acumen, she talked to Thabo Mdluli, one of the owners of Nexdor, a restaurant in Soweto's famous Vilakazi Street in Orlando West. She wanted to know whether it would be possible to exhibit art in a place where people eat and relax. She realised a formal gallery wouldn't work in Soweto; she had to bring the art to the people. This is what she did eventually with her first exhibition in 2013, which included works by Mpo Ntuli and Andrew Thabele. The pop-up exhibition was sponsored by Bombay Sapphire.

It was a huge success, partly because the artists' work was so well received and partly because Mashumi's heart and soul were in the undertaking.

"I was there from when the venue opened in the morning until the doors closed behind the last customer – usually at about three in the morning. It was hectic, but we did good business. I experienced the excitement of selling the first work of art. It was unbelieveable."

Later she arranged solo exhibitions for Kenny Nkosi, and in 2014, during the Joburg Art Week, also for Patrick Kagiso Mautloa, a respected artist from Soweto who has held exhibitions in Johannesburg and worldwide although never in Soweto. She presented the Mautloa exhibition under the title *Honouring our Masters Thereafter* exhibitions followed for David Koloane, Samson Mnisi, Bambo Sibiya and Jodi Bieber.

From 2012 to 2014 she was assistant production curator of the Joburg Art Fair.

But at the moment she is dreaming of a gallery-cum-museum in Soweto. On the one hand, she wishes to preserve the rich history of Soweto and at the same time have a venue where contemporary art can be exhibited.

"My aim with Mashumi Art Projects is to promote emerging talent in Soweto. I want to introduce these artists to the world." And when she says "world" she is not only thinking of the US and Europe, but also Africa.

"There is such a wide market beckoning." She talks with the same urgency that helped her start Mashumi Art Projects two years ago. And we will not be surprised should she get a foot in the door in the next year or two for some or other international art festival. ■

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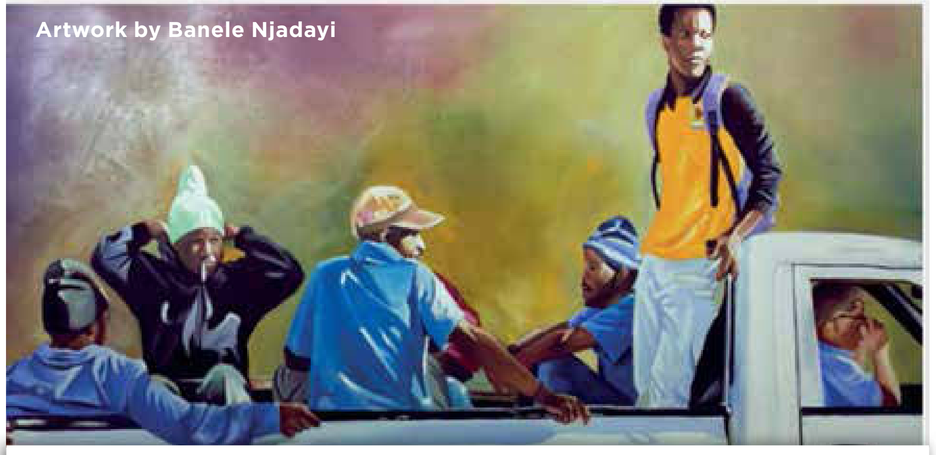
Artwork by Banele Njadayi


Artwork by Mthobisi Maphumulo

"THERE ARE PEOPLE WHO HAVE CALLED ME (A PIONEER), BUT I DON'T THINK ABOUT IT. I SIMPLY DO WHAT I MUST DO."

FRESH PRODUCE

To put together a show for the Fresh Produce programme, Zanele Mashumi crisscrossed the country from Limpopo to the Eastern Cape. The artworks she selected will be exhibited from 17 to 19 July at the Turbine Art Fair in Newtown, Johannesburg.

Four of the artists she included in the show were Bev Butkow, Mthobisi Maphumulo, Banele Njadayi and Andrew Orapeleng Ntshabele (see images).

- **Bev Butkow** is a self-taught artist who studied for and practised as an accountant for many years. She is a married mother of four. She works from her studio at Assemblage Studios in Newtown, Johannesburg, a few blocks away from where, decades before, her grandfather peddled eggs at the Fresh Produce Market.
- **Mthobisi Maphumulo** hails from Imfume on the KwaZulu-Natal South Coast. At school he wanted to study art but was encouraged to do electrical engineering instead. He dropped out after two years to pursue his passion for art. "In my work, I revisit our colonial history as a point of reference to challenge the residue of the colonial past, since I feel it still infringes on our present life," he says.
- **Banele Njadayi** was born in Grahamstown's Joza Location. He discovered a love of art and painting at an early age. Although he is largely self-taught, he did receive some art instruction at the Port Elizabeth TVET College in art and design. He majored in graphic design. He works in various mediums, using found objects like metal, boards, wood and plastic canisters.
- **Andrew Orapeleng Ntshabele** was born in the rural town of Moruleng in the North West. In his formative years, his family moved to Johannesburg where he later enrolled at the University of Johannesburg. He paints in a realistic style, and his subject matter is the poor and marginalised living in the inner city.

**The Fresh Produce project is supported by RMB. Education and mentoring will be facilitated by Assemblage, a non-profit organisation that encourages the visual arts community of Johannesburg to connect, share ideas, information and advice, and to collaborate.*

Ambitious plans for **XLink**

BY GUGU LOURIE

A provider of wireless data machine-to-machine (M2M) services wants to help municipalities and big corporates to detect water leaks, cope with power outages and improve other efficiencies as it aims to make R1bn a year in the process.

XLink Communications CEO Anton Leal said the firm is looking at acquisitions, forming business partnerships, assisting start-ups and providing smart services as part of its growth strategy.

XLink, which was founded in 2004, provides smart solutions that help municipalities and other big corporates save resources, optimise their budget spend and reduce inefficiencies. Municipalities can use the company's M2M services to instantly detect water leaks and unauthorised use. XLink is also operating on the rest of the continent where it sells products that offer efficiencies through automation.

Leal says the plan is to take the company's solutions beyond Africa through Vodacom, which owns 50.1% of XLink, and its parent company Vodafone via joint ventures. Pan African Equity Fund 1 holds 25.1% of the business and the remaining 24.8% is owned by XLink management.

Speaking exclusively to *Finweek*, Leal says XLink has its eyes on four or five small companies in South Africa. "Given our understanding of M2M or Internet of Things (IoT) segments, we come across young companies who have good solutions, but they need take to market capability.

"So, we are looking at a couple of small investments at the moment where we can invest in that company for the right reasons and use our agile structure and expertise to take to market their solutions. We have agreed on a road [to take] to become a billion-rand company," explains Leal.

However, he wouldn't be drawn into providing timelines for concluding the transactions.

BUILDING START-UPS

As part of its growth strategy, XLink recently partnered with KT Utility Forensics, a company that provides energy metering for automated consumption, tracking and management. Leal says KT Utility Forensics is a small South African firm with a "niche smart-metering electricity monitoring solution" that is yet to be scaled up to service in volumes.

He says using KT Utility Forensics solutions at XLink's head offices in Craighall Park, Johannesburg, his company has saved R60 000 a month on its electricity bill.

The M2M provider has also collaborated with WRP, a niche smart-metering water monitoring solutions firm, to detect water leaks being charged as consumption, overcome estimated billing and waste management of water for large industrial sites.

Another niche player that XLink partnered with is Oilguard, owned by Ireland-based Sentinel Fuel Products, operating through a smaller outfit in SA. Leal says one of the country's big five banks is already using Oilguard's diesel-monitoring solution to ensure that its generators are ready to cope with power outages. The solution helps with unprotected fuel storage tanks, theft and pilferage.

"We are looking at deals with cellular network operators on helping with their cellular base station power management," says Leal.

XLink is also extending its reach into smart monitoring for refrigeration management in the retail sector. Leal says a national pharmaceutical retailer is using its refrigeration-monitoring solution to proactively comply with health and safety regulations.

The company – which already enables point-of-sale communication in 12 African countries including SA, Angola, Mozambique and Zimbabwe – also has plans to expand its footprint in the region.

"We also follow Vodacom Business, South African banks and retailers, because they have a foot on the ground and they know what's happening in the region," explains Leal. ■

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Directors' Dealings

Company	Director	Transaction Date	Transaction Type	Volume	Price (c)	Value (R)	Date Modified
ANGLOGOLD	S Venkatakrishnan	17 June	Purchase	61,738	10973	6,818,782	22 June
ASTRAL	A Crocker	18 June	Purchase	120	16520	19,824	18 June
BSI STEEL	WL Battershill	19 June	Purchase	300,000	50	150,000	23 June
CLOVER	PR Griffin	19 June	Sell	6,000	1750	105,000	22 June
DELPROP	BA Corbett	18 June	Purchase	8,296	866	71,843	22 June
DELPROP	BA Corbett	18 June	Purchase	585	866	5,066	22 June
FAIRVEST	JF du Toit	11 June	Sell	14,151,381	195	27,595,192	18 June
FAIRVEST	JF du Toit	11 June	Sell	14,300,000	195	27,885,000	18 June
HOLDSPORT	KG Hodgson	15 June	Sell	15,138	5279	799,135	23 June
MAS	GJ Oosthuizen	9 June	Purchase	27,763	1674	464,752	18 June
MAS	GJ Oosthuizen	10 June	Purchase	71,537	1654	1,183,221	18 June
MAS	GJ Oosthuizen	11 June	Purchase	20,165	1652	333,125	18 June
METAIR	A Joffe	15 June	Sell	908,837	3467	31,509,378	23 June
METAIR	A Joffe	17 June	Sell	7,927	3467	274,829	23 June
METAIR	A Joffe	18 June	Sell	17,658	3467	612,202	23 June
METAIR	A Joffe	19 June	Sell	8,497	3467	294,590	23 June
NAMPAK	P de Weerdt	11 June	Sell	120,000	3367	4,040,400	18 June
NETCARE	L Bagwandeen	15 June	Sell	5,456	3609	196,907	22 June
NETCARE	L Bagwandeen	15 June	Sell	7,232	1773	128,223	22 June
NETCARE	J du Plessis	15 June	Sell	3,609	3575	129,021	22 June
NETCARE	J du Plessis	15 June	Sell	13,015	1773	230,755	22 June
NETCARE	KN Gibson	15 June	Sell	12,227	3609	441,272	22 June
NETCARE	KN Gibson	15 June	Sell	16,207	1773	287,350	22 June
NETCARE	P Warrener	15 June	Sell	7,849	3609	283,270	22 June
NETCARE	P Warrener	15 June	Sell	10,404	1773	184,462	22 June
RESILIENT	D de Beer	10 June	Purchase	4,480	8650	387,520	17 June
RESILIENT	D de Beer	10 June	Purchase	55,181	150	82,771	17 June
RESILIENT	D de Beer	11 June	Purchase	175,500	136	238,680	17 June
RESILIENT	D de Beer	11 June	Purchase	32,914	127	41,800	17 June
RESILIENT	NW Hanekom	11 June	Sell	32,914	127	41,800	17 June
RESILIENT	MH Muller	11 June	Sell	8,389	100	8,389	17 June
ROCK	N Matulovich	12 June	Purchase	7,465	2679	199,987	18 June
ROCK	S Noussis	15 June	Purchase	20,000	2650	530,000	18 June
SHOPRITE	G Hayes	22 June	Sell	1,500	16510	247,650	23 June
WBHO	TR Armstrong	17 June	Sell	50,000	10906	5,453,000	22 June

Dividend ranking

SHARE	FORECAST DPS (c)	FORECAST DY (%)	SHARE	FORECAST DPS (c)	FORECAST DY (%)
REBOSIS	109	9.2	REDEFINE	80	7.8
VUKILE	148	8.3	ASTRAL	1200	7.3
EQSTRA	24	8.3	A V I	525	6.7
OCTODEC	192	8.0	GROWTHPOINT	174	6.7
ACCPROP	54	8.0	CAPPROP	91	6.6

New NUM boss faces litmus test

BY MAMOKGETHI MOLOPYANE

The Roman emperor Julius Caesar, the Byzantine emperor Justinian, who sought to restore the Roman Empire, and Shi Huangdi, who united several warring states to form China, are historical figures who had one thing in common: they embarked on projects aimed to change the status quo of their respective societies.

For too long many have spoken about the looming changes in the South African labour movement. That moment came at the beginning of June, when members of the National Union of Mineworkers (NUM) elected a new general secretary.

Like the protagonist in a work of literature, the success of Frans Baleni contained within itself the seeds of his own downfall. His dethronement as one of the longest-serving union leaders of a Cosatu affiliate will forever be seen as the beginning of that long-threatening change.

Like most of you, I too thought Baleni would emerge victorious. This was not based on assumption, but on having observed workers during periods of crisis. You'll recall, for example, that workers opted to stick to the comfort of the known at the 2012 Cosatu Congress, when it was clear that the organisation was facing a crisis and needed change. Thus, the then leadership was re-elected unchallenged.

Based on the media commentary and interviews, the election of David Sipunzi as the NUM's new general secretary could mark (a) the beginning of a political project that is about to cause a profound reformist change of social and political frameworks for the labour movement, and (b) even further regression and a perpetuation of the same problem – the ignoring of the organisational failure in servicing members.

I've listened to most of the radio interviews Sipunzi has done since his election and I can say he has certainly set out to "dazzle and amaze". In one interview, he was asked what he thinks of settling for a possible 5% wage increase across all levels in the gold sector. Sipunzi chuckled and said, "That's laughable."

The gold-sector wage talks will be his first leadership test. In his attempts to reassert the NUM as a union of the workers, will he lead a negotiating team that will seek an increase that outstrips productivity growth, given rising unemployment and the tough operating environment for the mining industry? Wages have been the biggest bugbear (along with productivity) for SA's mining industry, which has long been losing competitiveness.

The Chamber of Mines' Elize Strydom said earlier this month that the industry is "at a crossroad", and that a measured and strategic conversation between partners will be required to achieve a sustainable industry that attracts investment and offers a level of employment security "within realistic parameters".

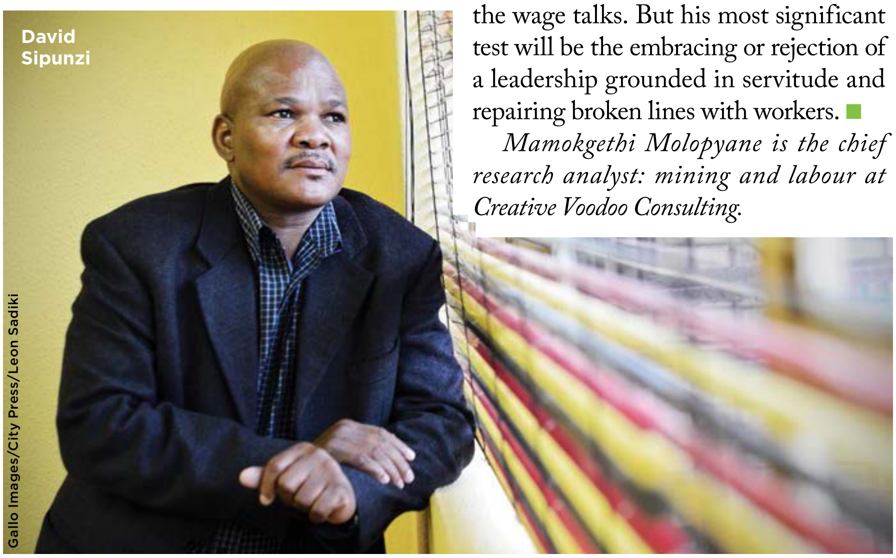
In other words, the Chamber sees above-inflation wage increases as out of the question, as agreeing to them will mean job cuts at a later stage. This is a view I happen to agree with: the precious metal is facing its worst period to date and if the current trend continues, the third quarter of this year is likely to be the weakest quarter for gold.

The downward trend of a higher wage increase is that it will hurt unskilled and, in many cases, un(der)educated workers who will find it harder to find an entry-level job in the mining industry.

It will move the bottom rung of the job ladder up higher than most unemployed people can reach, as investment will shift to countries that offer cheaper labour and potential jobs will be eliminated through automation.

Right now, Sipunzi's focus will be on the wage talks. But his most significant test will be the embracing or rejection of a leadership grounded in servitude and repairing broken lines with workers. ■

Mamokgethi Molopyane is the chief research analyst: mining and labour at Creative Voodoo Consulting.



David Sipunzi

Gallo Images/City Press/Leon Sadiki

TEST YOUR **KNOWLEDGE**

Welcome to our quiz! Let's see if you've been paying attention to this week's happenings. As usual, there are some general knowledge questions to keep you on your toes. Complete the quiz on Finweek.com to find out the answers.

finweek

1 **True or false?** Australia is currently experiencing massive heatwaves.

2 **True or false?** Famous Brands recently acquired a majority stake in Tiger Brands.

3 **True or false?** Last week's cover story was about the Chinese economy.

4 Name the capital of Germany.

5 Which former football legend is reported to be running for the Fifa presidency?

6 Recently pictures of a woman sitting in a Metro Police car went viral. What was she doing?
- Drinking liquor;
- Spraying passers-by with pepper spray;
- This question is invalid, the person involved was a man.

7 **True or False?** The first solar-powered plane, which recently flew around the world, is called the Solar Impulse.

8 **True or false?** Cape Town is one of the South African cities that has legal sewage pipes pumping untreated effluent into the ocean.

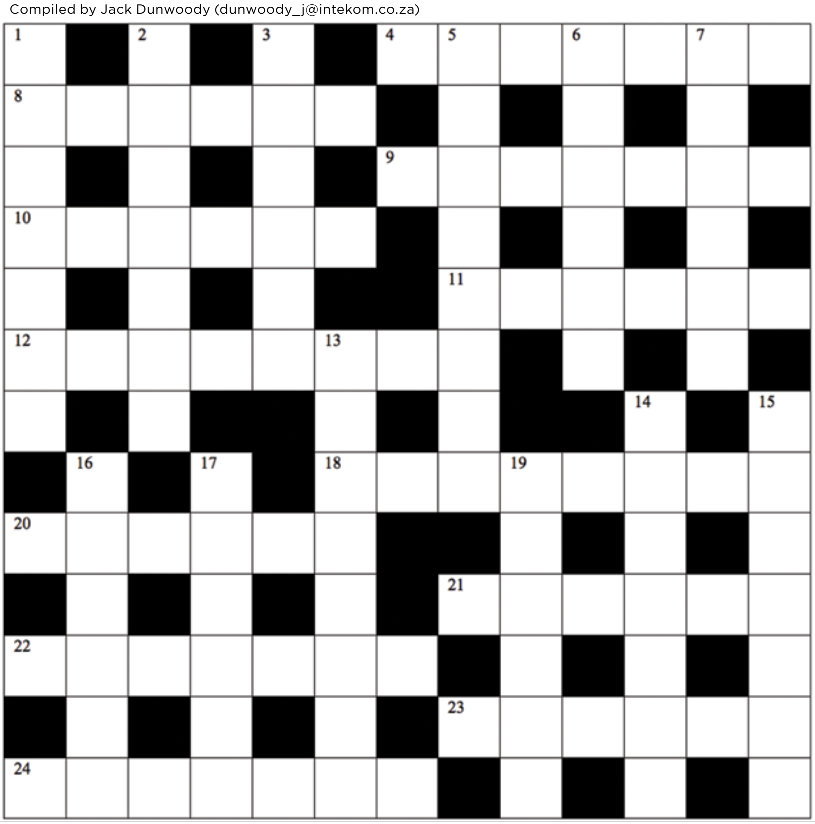
9 Recently two South African teens were kidnapped and taken to another country on the continent. Where were they taken?

10 As featured in the 18 June edition of the magazine, what was the cause of a massive furore after the inauguration of the newly elected Nigerian president Muhammadu Buhari?
- A hamburger;
- A sniper;
- A watch.

CRYPTIC CROSSWORD

NO 588 JD

Compiled by Jack Dunwoody (dunwoody_j@intekom.co.za)



ACROSS

4 Relaxation when you get to father's age (7)
8 Suppose there's only one piano involved in compositions (6)
9 Looking at Carol to accommodate sailor (7)
10 Worthy effort but lacks Roger's subtlety (6)
11 Sounds like someone reluctantly taking money out of a chest (6)
12 Sort of group to support the Queen (8)
18 Fundamental reason English lack common sense (8)
20 At least a mile from the lead (6)
21 Mate's short jacket (6)
22 Sarcastic play on words he makes (7)
23 Cost mother a considerable time (6
24 About to let loose (7)

DOWN

1 In addition to short notes about what's-his-name (2-3-2)
2 Soon to be living with heartless lady (7)
3 Male, for one, with lot to offer as church caretaker (6)
5 Big Brother has two cars, second one damaged at junction (8)
6 Art Nouveau providing fortune at first assessment (6)
7 See 17
13 Three minutes to drop off note at the end (8)
14 A final attempt to breed aardvark (3,4)
15 Drogues used to conceal arms (7)
16 Most decorated leader (6)
17 & 7 Ignoring offer of marriage? (6-6)
19 Is nothing but a line on a map (6)

Solution to Crossword NO 587 JD

ACROSS: 1 Cardigan; 5 Also; 9 Freak; 10; Governs; 11 Soho; 12 Amarelle; 13 Cat-o'-nine-tails; 18 Nanogram; 19 Moan; 20 Origami; 21 Fresh; 22 Mayo; 23 Penchant

DOWN: 2 Aureola; 3 Diabolo; 4 Argumentative; 6 Lorelei; 7 Oysters; 8 Over it; 13 Confirm; 14 Tantivy; 15 Nuggar; 16 Almirah; 17 Liaison

ON MARGIN

YOUR WILDEST DREAMS

A man is stranded on a desert island, all alone for 10 years. One day, he sees a speck in the horizon.

He thinks to himself, "It's not a ship." The speck gets a little closer and he thinks, "It's not a boat." The speck gets even closer and he thinks, "It's not a raft." Then, out of the surf comes a gorgeous blonde woman, wearing a wetsuit and scuba gear. She comes up to the guy and says, "How long has it been since you've had a cigarette?"

"Ten years!" he says.

She reaches over and unzips a waterproof pocket on her left sleeve and pulls out a pack of fresh cigarettes.

He takes one, lights it, takes a long drag, and says, "Man, oh man! Is that good!"

Then she asked, "How long has it been since you've had a drink of whiskey?"

He replies, "Ten years!"

She reaches over, unzips her waterproof pocket on her right sleeve, pulls out a flask and gives it to him.

He takes a long swig and says, "Wow, that's fantastic!"

Then she starts unzipping a longer zipper that runs down the front of her wet suit and she says to him, "And how long has it been since you've had some real fun?"

And the man replies, "Wow! Don't tell me you've got golf clubs in there!"

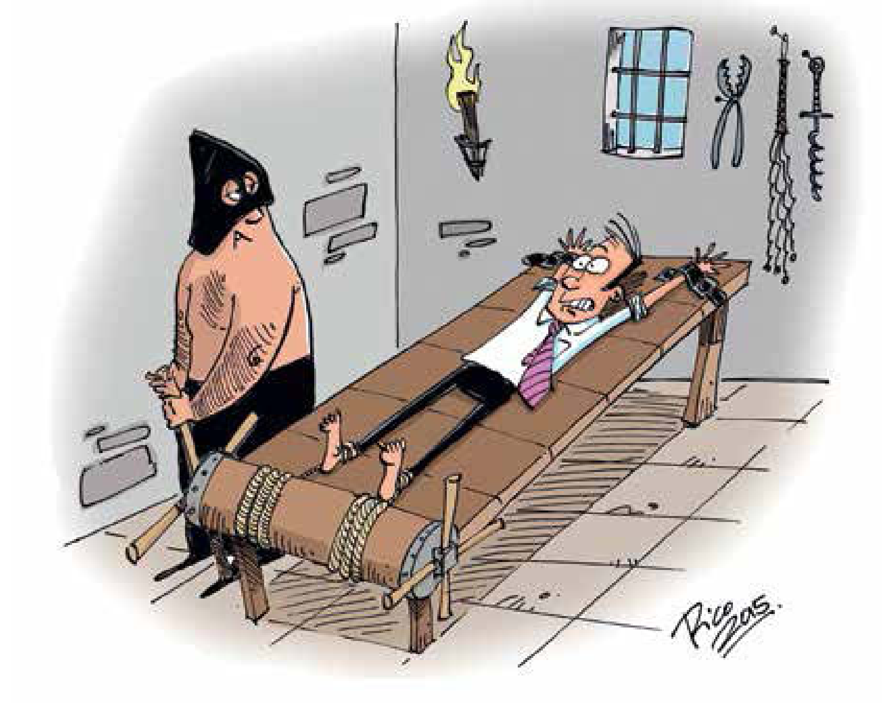
*

I stopped at a friend's house the other day and found him stalking around with a fly-swatter. When I asked if he was getting any flies, he answered: "Yeah, three males and two females."

Curious, I asked how he could tell the difference. He said: "Three were on a beer can and two were on the phone."

*

Remember, you should always give 100% at work: 12% on Monday, 23% on Tuesday, 40% on Wednesday, 20% on Thursday, and 5% on Friday.



"Is this your first disciplinary hearing?"

VERBATIM

Jennifer Malecówna @projectjennifer
Tiger Woods hit an 80? Maybe he's self-identifying as a top-order batsman.

Just Bill @WilliamAder
A lot of guys always dreamed of playing golf like Tiger Woods and now they do.

Jim Rome @jimrome
Tiger Woods and I have something in common. Neither one of us are ranked in the top 200 golfers in the world.

Ronnie Apteker @ronnieapteker
Eskom is charging for electricity at mini-bar prices. But at least the mini-bar always is there to supply when needed!

Samantha Cowen @samcowen
Eskom is like that friend who swears not to get drunk at a party. You want to believe them but you just can't.

Evita Bezuidenhout @TannieEvita
A Sudanese politician in a hurry left his Blackberry in my car. Does anyone have a forwarding address? #AU

"There are three rules for writing a novel. Unfortunately, no one knows what they are." – W. Somerset Maugham, British playwright, novelist and short story writer (1874-1965)

"A pessimist is a man who thinks all women are bad. An optimist is a man who hopes they are." – Chauncey Mitchell Depew, lawyer and US Senator from New York (1899-1911)

Adam Scott

With precision, tenacity and grace,
he's risen to the top of the game.
The first Australian to win the Masters,
he made history at Augusta
and became the pride of his country.
Winning championship after championship,
he's been ranked the No. 1 golfer in the world,
and his competitiveness continues to set the standard.
No matter how formidable the obstacle,
or how monumental the challenge,
Adam Scott's resolve remains as true as his Rolex –
proof that the most rewarding achievements
are won through both skill and determination.

ROLEX